Building Shareholder Value

Bank of Montreal Group of Companies

180th Annual Report 1997

Bank of Montreal

Bank of Montreal
Group of Companies

Bank of Montreal, Canada's first bank, is a highly diversified financial services institution offering a full range of services in all three NAFTA countries. These are the companies that serve you:

Bank of Montreal, through its Canadian operations, is a leading and innovative provider of a complete range of financial products and services to individuals, small businesses, corporations, governments and institutional clients. The Bank's telephone banking and Internet banking services and its automatic banking machines, together with its nationwide network of community-based banking locations, offer round-the-clock service to more than six million Canadians wherever they live, work or do business.

Nesbitt Burns Inc. is one of Canada's leading full-service investment firms, serving the financial needs of individual, corporate, institutional and government clients through more than 125 branches across Canada and 14 international locations.

Harris Bank provides banking, trust and investment services to individuals, small and mid-market businesses and not-for-profit and government entities within Chicago and surrounding communities – and is a leading provider of corporate banking services, primarily in the Midwest, and trust, cash management, investment management and private banking services throughout the United States.

mbanx™, our direct banking division, provides clients with full-service banking by Internet, computer, telephone, ABM, fax and mail, allowing customers to conduct their banking anytime, anywhere, anyhow.

Cebra® Inc. is a full-service provider of electronic commerce solutions. Cebra helps businesses throughout North America improve the way they communicate electronically with customers, suppliers and other trading partners.

Bank of Montreal Capital Corporation, working closely with its parent bank, provides seamless links to equity and quasi-equity financing options for Canadian growth companies. It has committed $200 million to four separate programs: Bank of Montreal Small Business Capital Program, Bank of Montreal Technology Investment Program, Bank of Montreal Early Stage Capital Program and Bank of Montreal Strategic Investment Program.

Bank of Montreal Nesbitt Burns Equity Partners Inc. is a merchant bank created by Bank of Montreal and Nesbitt Burns to make direct equity investments in growing North American companies, both public and private. It manages a $300 million capital program through offices in Toronto and Chicago.

First Canadian® Mutual Funds is one of Canada's leading families of mutual funds. With more than $9 billion of assets under management, it is also one of Canada's largest.

InvestorLine® Discount Brokerage serves Canada's self-directed investors. Clients can access their accounts and trade equities and options through an agent, automated telephone service, or web site around the clock for low discounted commissions.

Jones Heward Investment Inc. has been managing investment portfolios for high net worth individuals since 1925. In addition to private client portfolios, Jones Heward manages investments on behalf of pension funds, mutual funds, endowments, trusts, corporate operations and insurance companies. Assets under management are approaching $13 billion.

The Trust Company of Bank of Montreal is dedicated to the growth, administration and protection of the financial assets of its individual and corporate clients. Partnered with traditional banking and investment management services, it provides professional, integrated solutions to clients through advisory, agency and trust relationships.

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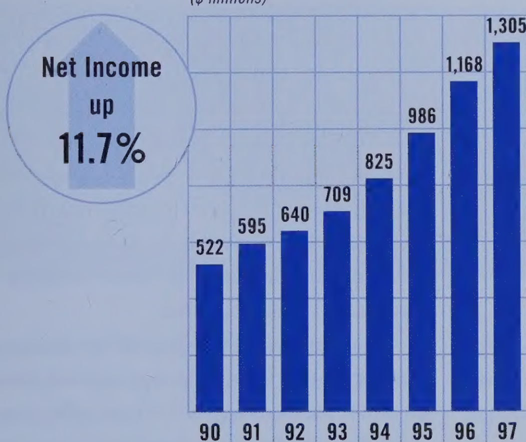
Performance

Sustained earnings growth in 1997 continues to build shareholder value.

Net Income

($ millions)



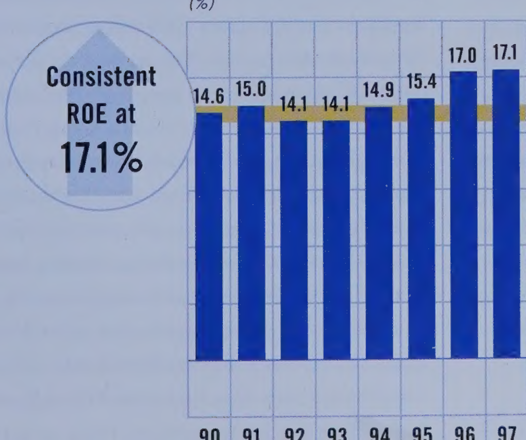
Fully Diluted Earnings Per Share

($)

■ As Reported

Return on Common Shareholders' Equity

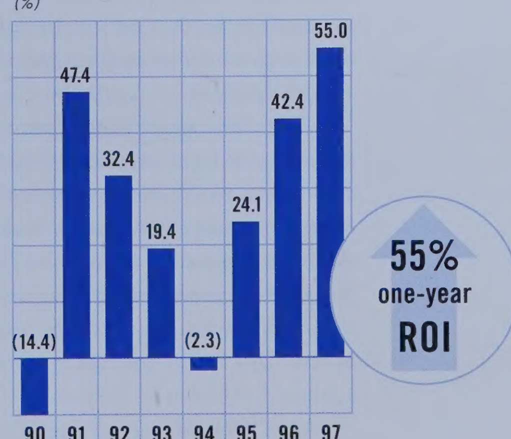
(%)



■ ROE Objective (14–15%) ■

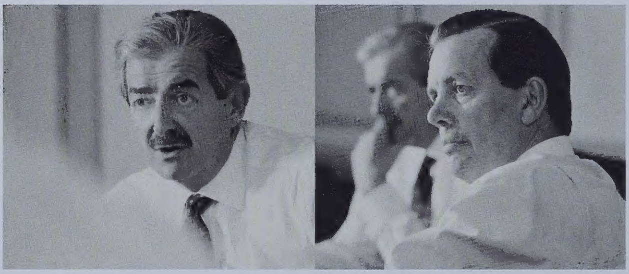
Return on Common Shareholders' Investment

(%)



■ ROI

Building Shareholder Value Over Time



Matthew W. Barrett

F. Anthony Comper

The end of each year is a time to look forward and back. It is a time to take stock, to reflect on lessons learned and to plan for the years ahead. For the management of the Bank, year-end brings with it the obligation to give the fullest possible accounting of the initiatives and events that produced growth in shareholder value, as well as the opportunity to report on plans for sustaining the creation of shareholder wealth in the future. The pages that follow in this Annual Report and the extensive disclosure contained in the Management Analysis of Operations section combine to assure that shareholders are well informed.

Fiscal 1997 saw the Bank of Montreal Group of Companies report record earnings for the eighth consecutive year, 11.7% above the level in 1996. Return on equity (ROE) was 17.1%. Your Bank is the only major bank in Canada and the United States to have produced ROE exceeding 14% for the last eight years. As a result, the market value of your Bank at year-end rose to $15.9 billion — a gain of $5.4 billion for the year.

Since 1990, the year a strategic plan for the decade was unveiled by the new management team, market capitalization has grown from $3.8 billion to $15.9 billion. Dividends paid out for the same period totalled $2.5 billion for a total return to shareholders of $14.6 billion. This result is heartening by almost any standard.

This performance has been achieved, in part, through our strategic commitment to earn, grow and invest at the same time. We do not delay critically important investments in favour of short-term boosts to earnings, nor do we accept the old adage "short-term pain for long-term gain." That phrase is often used to excuse poor tactical results and when that is the case, short-term pain often leads to long-term pain!

Instead, we consciously strive to strike a balance between short-term and long-term earnings. Long-term investments are funded with offsetting improvements in our existing businesses or by discontinuing activities with low or no potential for strong shareholder wealth creation.

So far, we have managed to strike this balance well. We have made more than $2 billion of new strategic investments over the past several years without interrupting our stream of record earnings and ROE. As these investments mature, we expect them to contribute strongly to the earnings momentum we have created.

Another major ingredient of our strategy that augurs well for sustained, consistent earnings growth is the focus we place on diversification: diversified geographic markets, diversified lines-of-business and diversified customer segments.

The individual and small- to medium-size enterprise segment is, of course, an inherently diversified customer base. We have seven million individual customers across all socio-economic sectors and 475,000 individually operated small- to medium-size businesses. This segment contributes 74% of our net income. The size and stability of our retail businesses are a source of comfort, given the more cyclical nature of the wholesale business. Throughout the past year, we have revised our product and service offerings, tailoring them more closely to our customers' needs, and we have retooled our distribution system, creating a more flexible and accessible retail banking network.

Geographic diversification has centred mostly in the United States, followed by Mexico and, to a much lesser extent, selective markets in East Asia. In each new market we enter, we take a long-term approach, building our business on a solid foundation of knowledge, judgement and experience, and we have reaped substantial benefits from this prudent approach. In 1997, more than 50% of our

earnings came from outside Canada. That was our goal for the year 2002, and reaching it has enabled us to advance more quickly to our next target — to achieve 60% of earnings from outside Canada.

A third major component of the strategy for consistent earnings is our drive to advance the management sciences throughout the Bank. Here, no function is more important than risk management.

Our objective has been to avoid the traditional "boom-bust" cycles caused by assuming excessive levels of risk through over-concentration in different sectors and/or inadequate information about investment quality. While our investments in risk management do not grab headlines, they will continue to be an important factor in generating consistent earnings.

Over the past several years, we have adopted sophisticated new policies and tools in every risk management category, not just credit risk. During the severe recession of the early 1990s, your Bank achieved record earnings, while some of our competitors stumbled. This was due in part to the risk management disciplines already in place, which we have continued to refine. Several experts in these fields have recently judged your Bank to be on the leading edge of contemporary risk management capabilities.

Today, we have the most diversified portfolio in our history. We have also built substantial reserves to buffer us from any future shock in asset quality. At year-end, our net impaired loans (i.e. total impaired loans minus reserves) was a negative $357.8 million. Put another way, even if every impaired loan on our books today was completely lost, the reserves we have already built would more than cover every one without dipping into earnings.

As customers' demand for financial services grows in intensity and sophistication, your Bank is constantly seeking ways to meet or exceed their expectations. Accomplishing that often requires the creation of economies of scale or economies of skill. In the past year, we have formed a number of strategic partnerships to secure the scale and skill necessary to be an industry leader in every field in which we compete. These partnerships will play an increasingly important role in the "earn, grow and invest" component of our strategy as they mature. You will find a more detailed discussion of these initiatives in the pages that follow.

Beyond foreseeable risks and identifiable opportunities, there are exogenous variables in the environment with which we must contend. A major example is regulatory change. In response to shifts in the regulatory regimes in Canada, Bank of Montreal has published a discussion paper, *Policy Alternatives for Canadian Financial Services*, and I encourage our Canadian shareholders to obtain a copy and take part in the debate on the issues that will decisively shape the future of the Bank.*

As you read this report — our accounting to you of the initiatives we have taken on your behalf and the results they have achieved — it is my hope that a theme, a continuity and a pattern will become apparent to you. We are living in a time of great change, and success in this era requires the ability to accept and embrace that change, and to seize the opportunities it creates. By identifying those opportunities and incorporating them into a prudent, balanced strategy, the management of your Bank believes it has set the course for the sustained building of shareholder value for many years to come.

Matthew W. Barrett
Chairman and
Chief Executive Officer

Gary S. Dibb

Jeffrey S. Chisholm

Ronald G. Rogers

Brian J. Steck

Alan G. McNally

** To obtain your copy, please visit our web site at www.bmo.com or write to: Economics Department, P.O. Box 1, 1 First Canadian Place, Toronto, ON M5X 1A1.*

Guided by our North American strategic vision and driven by a company-wide commitment to excellence, Bank of Montreal is reaping the benefits of domestic, continental and global prosperity. By identifying and capitalizing on Canadian and international opportunities, and by delivering full value to our customers, the Bank has enjoyed a year of record profitability.

Range

Responding decisively to the deepening integration of the North American economies, Bank of Montreal — with Harris Bank, its wholly-owned subsidiary in the United States, Nesbitt Burns, and in alliance with Grupo Financiero Bancomer, its partner in Mexico — has developed a continental banking platform that provides outstanding personal and commercial banking, institutional banking, corporate banking and investment banking in each market.

Fiscal 1997 was a watershed for Bank of Montreal. For the first time, more than half the Bank's earnings came from outside Canada. Forty-one per cent came from the United States and 6% from Mexico.

Our U.S. flagship, Harris Bank, has played a leading role in the Bank's three-pronged American expansion strategy. Since 1993, Harris has tripled the number of its retail and small business customers to more than 800,000, and since its purchase by the Bank in 1984, its book equity value has increased from US$434 million to US$1.8 billion. From its base in Chicago and the American Midwest, Harris has expanded into new U.S. markets, including Florida, where its existing trust operations are being converted into full-service branches to be operated under the Harris banner. Harris also significantly increased its presence in Arizona to a total of five locations.

Unlike some who enter emerging economies with risky, speculative strategies, the Bank has taken a consciously conservative approach in Mexico, dealing only in stable investments with business partners who are well-known to us. With a 16% equity interest and a 20% voting interest in Grupo Financiero Bancomer, Bank of Montreal has built a solid base for profitable long-term growth.

Bancomer has recently completed a major reorganization of its operations and has significantly improved its asset quality. As part of its strategic plan, Bancomer will identify or create scale economies around businesses with cross-border operations that can benefit from Bank of Montreal's unified continental capabilities.

In 1997, Bank of Montreal, Harris and Bancomer pooled their resources to create a single point of access for cash management services across North America. This initiative saves time, reduces costs and

makes funds more readily available for companies doing business in Canada, the United States or Mexico by offering a seamless service that can track daily transaction and balance information across North America.

A natural outgrowth of Bank of Montreal's North American infrastructure, the cash management project is the latest example of our commitment to provide our customers with an integrated array of high-value products and services in all the markets we serve.

Just as the integration of the North American economy led us to contemplate continental opportunities, the changing international reality compels us to look even farther afield — to global markets.

Today, all eyes are focused on the People's Republic of China. Our belief in that country's potential has been backed by decisive action. With the opening of a full-service branch in Beijing and our submission of an application for a representative office in Shanghai, we have significantly expanded our presence in China, which includes branches in Guangzhou and Hong Kong. In addition, Bank of Montreal has signed a memorandum of understanding with the Industrial and Commercial Bank of China, the largest state-owned bank in China, with over 36,000 outlets and assets of more than $613 billion.

The Bank's expansion into China has been weighed carefully, and reflects our best analysis of that country's superior economic performance, despite recent turmoil in Asia. Many of Asia's emerging economies, while offering the possibility of large short-term returns, also entail more risk than we feel is prudent. Our approach is a cautious one. We have therefore focused our activities in the region to service the needs of our North American clients and thus minimize our indigenous exposure.

Concerted, planned expansion into new geographic markets brings consistent, stable growth in earnings.

The key to the Bank's long-term growth and profitability is our ability to provide customers with the services they want, when they want them and how they want them.

Reach

Achieving that goal requires a thorough understanding of our customers' needs and the means to fulfill those needs. That's why Bank of Montreal is re-inventing retail banking — the delivery system that serves six million customers in Canada.

Our new approach at the Personal and Commercial Financial Services group (PCFS) will offer a more targeted line of products and services and a multiple access-point distribution system that enables customers to choose how, when and where they use our services.

PCFS has been reorganized into distinct sales and service streams, creating a clearer focus on our customers' needs. PCFS has also introduced a new pricing strategy and has begun to reshape the retail distribution system to provide greater accessibility and customer choice, as well as reducing transaction costs.

With an enhanced customer focus and a flexible distribution network, the new PCFS will become the platform for the cost-effective delivery of the Bank's core products and services.

mbanx™ — change is good

In October 1996, Bank of Montreal created mbanx, the first direct bank in Canada, and launched a new era in consumer banking.

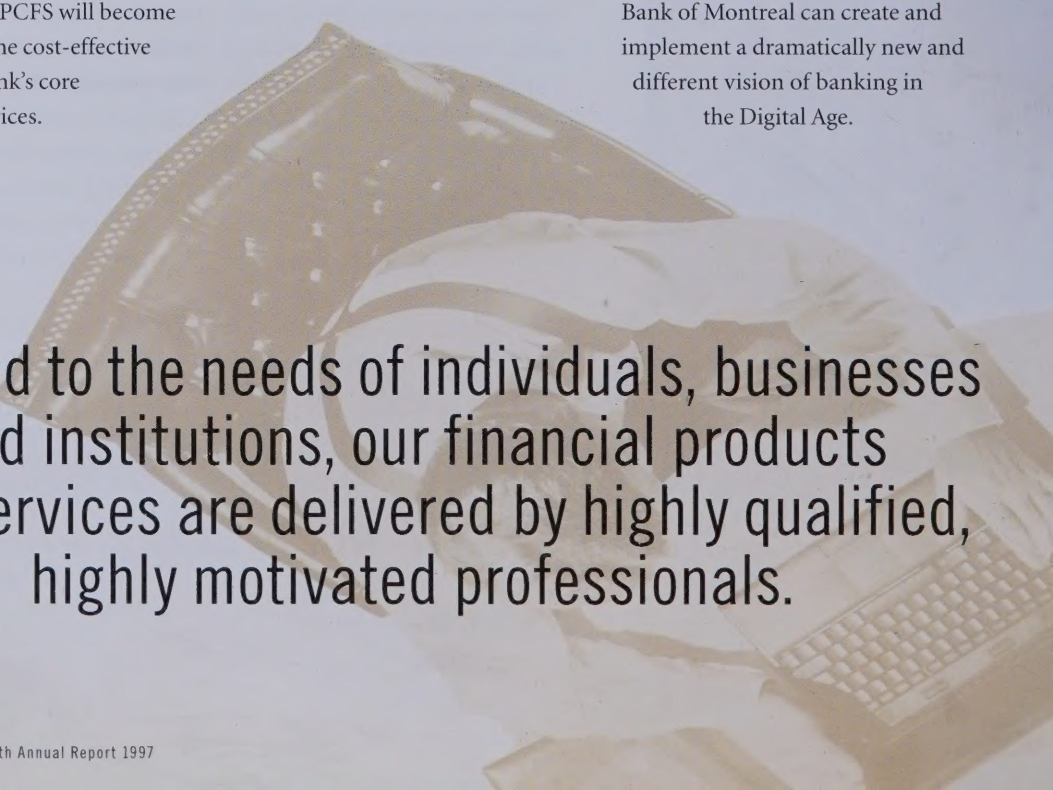
mbanx is the creative marriage of people and technology, harnessed to produce banking free from the boundaries traditionally imposed by time and space.

Through mbanx, Bank of Montreal customers can enjoy a new, broader level of banking services delivered with unprecedented flexibility and convenience.

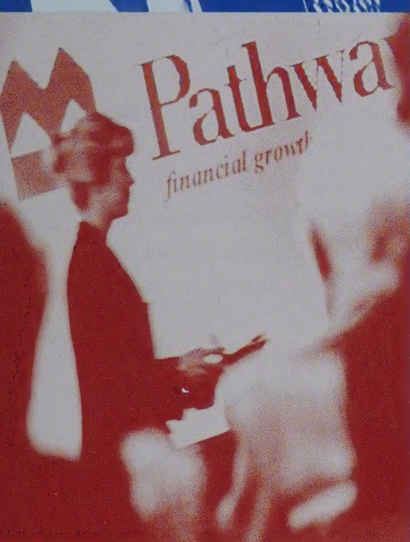
At the heart of mbanx are five core values: a promise is a promise; everyone is important; change is good; simple rules that work; and we believe in better. Together with product innovation, such as offering for the first time mortgages through the Internet, the mbanx brand has received outstanding recognition in the marketplace.

With more than 80,000 customers to date, mbanx has met or exceeded our customers' expectations, having placed in the top decile in customer loyalty rankings of financial services surveyed by an independent research firm.

mbanx is definitive proof that Bank of Montreal can create and implement a dramatically new and different vision of banking in the Digital Age.



Tailored to the needs of individuals, businesses and institutions, our financial products and services are delivered by highly qualified, highly motivated professionals.



Pathways — a new financial retail centre

In today's marketplace, the consumer rules. To be successful, retailers — including Bank of Montreal — must offer outstanding products and services in a warm, friendly and positive environment.

Pathways financial growth centre is a new concept in community retail banking that transforms the traditional branch into a modern financial retail centre.

By coupling the latest technology with personal professional advice in a relaxed, informal setting, Pathways delivers all the personal and product information our customers need to set their financial goals and explore their options for meeting them.

Banking "shoppers" can explore their options by using interactive computer kiosks, by viewing a wide selection of videotapes or by participating in live presentations given by expert speakers at the centre's theatre.

The first Pathways financial growth centre opened in Burlington, Ontario in May, and will serve as the model for future Pathways in regional shopping malls throughout Canada.

Investore™ — the "retail experience" comes to investing

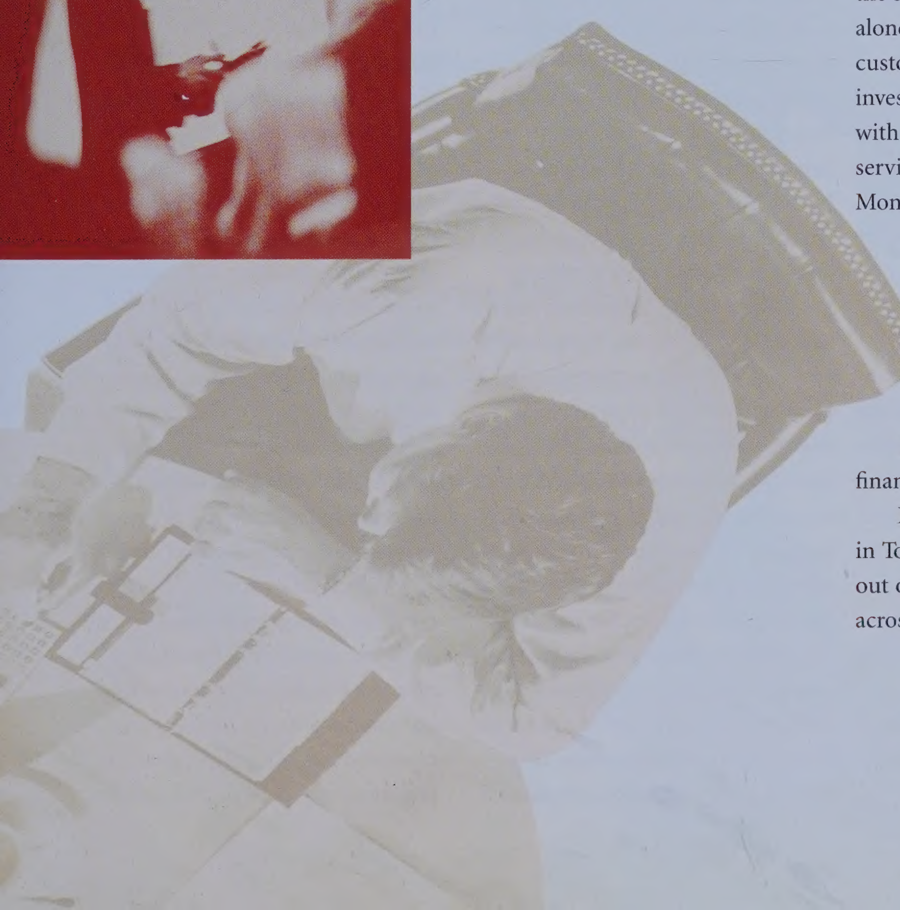
The "information revolution" that has transformed the global economy has also empowered financial customers with new abilities and opportunities to plan their financial futures. At the same time, their expectations for service, advice and counsel have also increased. That's why Bank of Montreal has created Investore — a money management boutique that gives our customers the opportunity to "shop" for personal financial services.

Investore provides our customers with all the information, access and professional advice they need to make sound investment decisions quickly and easily.

Targeted to both the novice and the sophisticated investor, our stand-alone Investore Sales Centres enable customers to identify their personal investment needs and match them with the appropriate products and services offered by any of the Bank of Montreal Group of Companies.

With its interactive touch-screen computers, unique design and vibrant colours, Investore invites and encourages customers to browse in the resource centre, surf the Internet or attend daily in-house financial seminars.

Investore's successful debut in Toronto will be followed by a roll-out of six stores in major centres across Canada.



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Reach
continued

Building secure financial futures

Long-term economic growth and the progressive aging of the North American population have made wealth management one of the fastest-growing and potentially most profitable services within the Bank of Montreal Group of Companies.

As more customers move into the wealth accumulation stage of their lives, they naturally seek the services of trusted wealth management professionals.

To fully realize that potential, Bank of Montreal has reorganized its wealth management operations into three distinct North American businesses: mutual funds management, institutional money management and private client services for high net worth individuals.

The family of First Canadian Mutual Funds has more than $9 billion of assets under management. Under the direction of Jones Heward and Harris Investment Management, more than 80% of First Canadian actively managed Canadian and U.S. equity mutual funds ranked in the first or second quartile for one-year performance.

Nesbitt Burns' top-ranked research was made more accessible to clients with the introduction of two proprietary mutual funds, the Canadian Stock Selection and Canadian Quantitative Funds.

In the United States, Harris' Insight Equity, Equity Income and Convertible Funds regularly ranked in the top 15 on the *Wall Street Journal* Mutual Fund Scorecard. For the week of September 9, the Insight Equity Income Fund was the *WSJ*'s highest-rated fund in the United States — in its field of more than 600 competitors.

Combined assets under management in First Canadian, Nesbitt Burns and Harris Insight Funds total more than $17 billion.

InvestorLine, Bank of Montreal's discount brokerage service, expanded its interactive service offerings, delivering to our customers 24-hour-a-day, seven-day-a-week trading access.

Bank of Montreal's Private Client Services meets the needs of customers with increasingly complex financial affairs and, under one roof, furnishes them with the expertise and choice they are seeking.

In 1997, Harris Private Bank recorded double-digit growth in revenue and its assets under administration reached a record US$13 billion.

Nesbitt Burns — international investment expertise

Nesbitt Burns is a full-service investment firm, serving the financial needs of individual, corporate, institutional and government clients. Nesbitt Burns' reach spans over 125 branches across Canada and 14 international locations, giving the firm a presence in every major financial market. One of the largest Canadian investment firms, Nesbitt Burns employs equity capital of more than $560 million and total regulatory capital of $958 million.

Nesbitt Burns' investment research continues to receive the highest ranking among Canadian-based brokerage firms, and its team of 40 research analysts covers more than 450 North American stocks across diverse industry sectors. Backed by that analytical strength, Nesbitt Burns' investment advisors furnish their clients with outstanding investment counsel.

In the United States, Nesbitt Burns' primary focus is to continue building its research capabilities in American companies in key industries. Those new resources will be complemented by Nesbitt Burns' expertise in its investment banking, institutional equity and fixed income groups.

Investment and Corporate Banking

Throughout North America, corporate banking is a growing field where competition from both banks and non-banking institutions is increasing in intensity. To enhance our competitiveness in this sector, the Corporate Banking division has recently redefined its strategic focus and sharpened its core competencies.

The mission is to be *the* sought-after financial partner, known throughout the industry for the quality and suitability of its financial solutions; the creativity, knowledge and quality of its people; its effective application of advanced technology; and its global reach. The intellectual capital of Bank of Montreal, Nesbitt Burns and Harris Bank offers clients an integrated solution which draws upon a full range of product expertise.

Supported by state-of-the-art portfolio management capability, the Bank has rigorously targeted our client base to deliver customized financial solutions. As a result, revenues increased to $451 million from the previous year's level of $371 million.

Stewardship

Providing a framework for shareholder value

Regulation for Growth

As we approach the next century, the North American banking industry is confronting not one, but four, powerful drivers of change: information and technology, globalization, demographics and financial disintermediation.

The magnitude and the pace of this change have raised serious questions about the structure of the Canadian financial services industry and its ability to serve the needs of Canadian businesses and consumers. In a rapidly changing global economy, government regulations must also evolve, reflecting new realities while protecting the public interest.

To help ensure the regulations governing the industry are kept effective and relevant, the Bank has offered its perspective on regulatory reform in *Policy Alternatives for Canadian Financial Services*, a study submitted to the federal government's Task Force on the Future of the Canadian Financial Services Sector earlier this year.

No more important issue faces the Canadian banking industry than the development of a modern, workable and equitable regulatory framework, and we invite you, our shareholders, to take an active role in this process. We encourage you to make your voices heard by taking part in this debate.

Corporate Governance

Bank of Montreal is an acknowledged leader in the field of corporate governance. We recognize, however, that a sound and responsive system of corporate governance cannot be based on fixed and immutable structures and processes. In the past year, the Bank has completed a comprehensive review of its corporate governance practices and has instituted some major revisions to them. A complete discussion of the Bank's corporate governance practices can be found on page 91.

Intense competition from traditional financial services companies and from large international rivals is changing the face of banking in North America.

To maintain its leadership in this crowded and competitive field, Bank of Montreal constantly seeks the most effective and efficient ways to deliver relevant, value-added products and services to our customers. Often, those solutions can be found in alliances or strategic partnerships that pool financial, technical and human resources, effectively combining the strength and expertise of each partner.

Partners

Symcor — state-of-the-art paper processing

Even as the advent of electronic banking has reduced the daily paper flow processed by Canadian banks, escalating customer expectations now require faster, more accurate and more efficient document processing and settlement systems.

To meet these expectations, Bank of Montreal, in conjunction with two other major Canadian banks, has created Symcor Services Inc. The Symcor joint venture harnesses the most advanced technology, implementing the industry's best practices to create a company that can equal any document processor in the world.

With nine processing centres across Canada as the ultimate goal, Symcor is becoming fully operational and is set to become a leader in efficiency and effectiveness for the North American financial services industry.

Mondex™* — electronic cash and carry

The information technology revolution has changed our lives forever. And now, through the power of the computer microchip and the development of the Mondex "smart card," new freedom and convenience will be delivered, literally, into the hands of millions of Canadians.

In May, Bank of Montreal joined the Mondex Canada consortium. Backed by 10 of Canada's largest financial institutions, Mondex is a payment smart card that combines the convenience and security of paying by card with the advantages of paying by cash.

Mondex eliminates the need for large amounts of change, streamlines small-denomination retail transactions and provides greater security for both merchants and customers.

The Mondex smart card eliminates the need for point-of-purchase authorization, facilitating a transaction that is as fast as cash but much more secure. Bank of Montreal and its partners will introduce the Mondex card in selected Canadian cities during 1998.

Partners First™†

To strengthen our position in the highly competitive U.S. credit card market, Bank of Montreal and Harris Bank have announced a strategic alliance with two major American financial services firms, First Annapolis Consulting, Inc. and BankBoston Corporation.

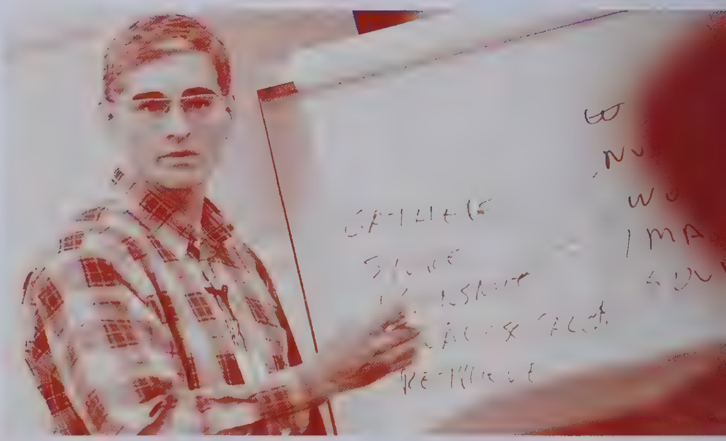
With the combined resources of its parent companies, Partners First will possess the economies of scale of a much larger, high-quality U.S. credit card portfolio. It will also possess economies of skill — expertise in data mining and consumer marketing techniques — capabilities required to compete successfully in an industry undergoing significant consolidation.

The business objective for Partners First is to rank among the top 15 credit card issuers in North America by the year 2000, growing both through traditional channels and through alliances with other banks.

Strategic partnerships create the means to do more for our customers.

In the past decade, the North American financial services industry has undergone profound change, driven in part by the global revolution in information technology. Today, it is information, not money, that is the industry's lifeblood. By investing in science, technology — and its employees — the Bank of Montreal Group of Companies have created a platform for continuous learning and continued profitability.

Skills



In both Canada and the United States, we are committed to becoming the learning bank. We have developed the new capabilities, programs and approaches needed to make the transition from a transaction-based company to a knowledge-based solutions provider.

Powerful technologies have been harnessed and new organizational programs have been implemented to keep the Bank at the forefront of innovation, motivation and learning wherever it operates.

Risk management — striking the right balance between risk and return

As a responsible financial steward, Bank of Montreal must always seek ways to realize attractive returns from investment while reducing the risks associated with it.

To achieve that objective, Bank of Montreal has developed a sophisticated system that provides improved risk measurement and analysis. The investments we have made in developing state-of-the-art analytical and risk management tools have established the Bank as an industry leader in this field.

In recognition of our leading-edge expertise in the portfolio management of corporate risk, Bank of Montreal was invited to become a co-sponsor with J.P. Morgan and a consortium of prominent international banks in the CreditMetrics risk management venture.

CreditMetrics combines computer software, data and analytical modeling to measure and analyze the level and nature of market and credit risks associated with an investment, enabling Bank of Montreal's corporate clients to make prudent financial decisions.

Market research – knowing our customers better

In today's marketplace, success hinges on developing a new and deeper level of understanding of the wants, needs and aspirations of our more than 11 million customers in Canada, the United States and Mexico.

By harnessing the latest marketing technologies, including "data mining," advanced customer segmentation techniques and other quantitative analyses, Bank of Montreal is able to develop a clear and detailed profile of the markets and customers we serve.

Specifically, data mining provides the Bank with a much better understanding of how purchasing decisions are actually made, of our customers' attitudes toward our products and services — and of Bank of Montreal itself.

This understanding enables us to develop and deliver the products and services that offer the most value to our customers, ensuring their long-term loyalty and the Bank's long-term profitability.

Dedication to continuous learning

To manage the transition from a provider of financial products to a provider of financial services, Bank of Montreal

has made learning an integral part of our corporate culture. Learning — the ability and willingness to acquire new skills and knowledge and to adapt to changing circumstances — is the key to success in a competitive and dynamic business environment.

Bank of Montreal has invested heavily in training to give its employees the opportunities they seek for continuous learning, skills enhancement and career advancement. In 1997, the Bank spent more than $65 million to offer employees an average of 6.6 training days per person throughout the course of the year. More than 70% of this training occurred outside the traditional classroom setting.

The Bank's Institute for Learning (IFL) in Toronto, Ontario, offers more than 70 individual courses in four major areas: leadership and change; marketing, sales and service; lending, corporate finance and capital markets; and technology. A range of approaches are employed to meet the Bank's learning needs. This year, for example, two programs in support of building the core competencies of the Operations Group were designed in alliance with external partners.

In alliance with Boston University, the IFL delivered the Project Manager Professional Development Program, a course that leads to professional accreditation from the Project Management Institute. A second alliance, with the University of Waterloo, resulted in Bank of Montreal technology specialists participating in the Education Program for Software Professionals, a program focused on building skills critical to the rapid learning of new technology applications.

While the IFL serves as the learning centre for Bank employees around the world, employee training activities are conducted in every part of the Bank's operations.

Through its distributed learning programs, recently augmented by its interactive learning services, the Bank offers a comprehensive range of learning and performance support materials to employees wherever and whenever they are needed.

Rewarding success

The achievement of our stated business objectives is vital to the long-term success of the Bank, but it requires an outstanding contribution from every individual and group within the Bank.

By tying compensation to performance, we can ensure that the rising demands and expectations of our customers will continue to be met; our employees will be rewarded fairly while helping to build shareholder value.

The Bank's Variable Pay programs have developed a series of individual, group and corporate goals to evaluate the performance and compensation of each employee. To earn variable pay — compensation above and beyond salary — all three goals must be met.

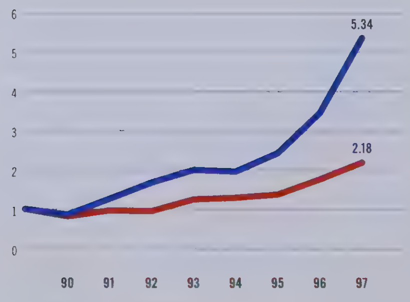
The programs are constantly being refined to reward individual, team and corporate performance properly and accurately, and to provide every employee with tangible incentives to meet or exceed our customers' expectations.

Harnessing the management sciences to build shareholder value.

Shareholder Value Reaches an All-Time High

As you have seen, this 1997 Annual Report puts the spotlight on the fundamental purpose of our business, the creation of value for our shareholders. Our ability to deliver enhanced shareholder value consistently is the single most important standard by which we judge our success. In the preceding pages you have had an opportunity to read about some of the many initiatives we have undertaken to build that value in the past eight years — and, we believe, to produce even greater value for you in the years ahead.

Growth of a dollar invested in Bank of Montreal common shares* *($)*



** Assumes reinvestment of common share dividends.*

This may seem to be a bold claim, but it has history on its side. Over the last five years your Bank has delivered a 26.1% return on shareholder investment while the TSE 300 Index companies produced a return of only 18.1%. That superior overall return was driven by a healthy balance of a 158% rise in the market price of common shares and a $0.49 rise in the annual dividends paid on them. Looking at 1997 alone, we earned a return on shareholder investment of 55.0%, more than doubling the market return of 24.4%.

While building shareholder value, it should be noted, your Bank contributed to economic growth by lending $57.9 billion to Canadian individuals and small and medium-sized businesses. We also contributed $1,226 million to the public coffers in the form of taxes and government levies, compared to $1,227 million last year. This represented 46.7% of our annual income.

These consistently strong results admittedly owe a good deal to the robust North American economy, to the bull market in shares, and to higher valuations for Canadian banks in general. But they also owe a good deal to a particularly powerful performance by the Bank of Montreal Group of Companies. You will find more details on all of these factors beginning on page 21 of the Management Analysis of Operations which immediately follows this message.

I would like to take you through the highlights of our 1997 results, which are treated in greater detail later in this Report. They demonstrate that your Bank has performed strongly across a wide range of financial measures. This in turn reflects our well-balanced strategy of constant innovation, superb risk management, and earning, growing and investing all at the same time. The broadly based strength of our performance gives us confidence we can continue to create this kind of value in years when the business environment may be less favourable. We look forward to the future with confidence, because we are prepared for the dangers and poised to take advantage of the opportunities.

Earnings and Profitability: Eight Straight Years of Growth

The 1997 fiscal year marked our eighth consecutive year of earnings growth as measured by fully diluted earnings per share (EPS), and the fourth consecutive year in which EPS exceeded our 10% growth objective. Average EPS growth over the past five years was 14.5%.

Fully diluted earnings per share in 1997 reached $4.62, representing an 11.9% improvement over $4.13 in 1996, due in large part to strong business volume growth, cash collections on impaired loans, and earnings from equities and bonds of lesser developed countries, partly offset by continued investment in the future and a $75 million charge for accelerated depreciation and credit process efficiency improvement. We also continued to benefit from our state-of-the-art management of credit risk. Our excellent results reflect the benefit of being diversified as economic conditions change.

Our strong performance this year includes an increase to our general reserves. Without this $200 million charge, EPS would have been $5.05. And, of course, we continued to invest in future growth — which, again, is consistent with our financial philosophy of earning, growing and investing all at the same time. Over the last few years, we have invested more than $2 billion in strategic spending to ensure future earnings growth in light of the rapidly changing competitive environment. To date, the primary investments made in Nesbitt Burns, Harris Bank in the U.S., and Grupo Financiero Bancomer, Mexico's leading financial institution, have contributed to total increased earnings from these areas of $100 million.

Profitability, measured by return on common shareholders' equity (ROE), reached 17.1% in 1997, marking the eighth consecutive year that our ROE has exceeded 14%. At the same time net income growth was 11.7%, down from the previous year's 18.4%.

ROE, which increased from 17.0% the previous year, would have been 18.7% without the $200 million charge to increase our general provision. Our performance was driven by our strategic diversification of income sources by line of business, geographic market and customer segment. *(Details: Pages 22 and 23.)*

Revenue Growth: Best in Nine Years

Led by Investment and Corporate Banking and Global Treasury Group, both of which benefited from robust capital markets, revenue growth in 1997 reached 15.1%, up from 9.9% in 1996.

Our best revenue growth numbers in nine years can also be attributed to strong asset growth in our Canadian and U.S. retail banks, which have benefited from the expanding North American economy, and cash collections and earnings on bonds and equities of lesser developed countries in Global Treasury. *(Details: Page 24.)*

Productivity: Investing for Future Growth

Our expense to revenue ratio increased by 100 basis points to 64.4% in 1997, reflecting revenue growth of 15.1% and expense growth of 16.8%. Productivity improvements were offset by investments to ensure future growth, including the critical development of electronic delivery channels; the increased cost of variable compensation; accelerated depreciation related to technology changes; and costs to improve the efficiency of our credit process. *(Details: Page 28.)*

Operating Group Review: Introducing EFS and GTG

We added a fifth principal line of business or operating group, Electronic Financial Services (EFS), as well as creating Global Treasury Group (GTG) in 1997.

EFS takes responsibility for mbanx, our one-year-old virtual banking division; cash management services; telephone banking and other electronic delivery channels; credit card operations; Institutional Trust and Custody; our electronic commerce services subsidiary, Cebra Inc.; and our strategic alliance with Grupo Financiero Bancomer. Due to essential strategic investment in the development of electronic delivery channels, EFS net income declined by 7.4% in 1997.

GTG combines our financing and treasury lines of business, and also takes responsibility for relationship management for Non-Bank Financial Institutions and Governments and International Financial Institutions. Driven by capital markets, GTG demonstrated brisk income growth in 1997 of 26.9%.

Strong capital market forces in the low interest rate environment drove the 33.9% growth rate for Investment and Corporate Banking.

Volume growth, considerably offset by the cost of integrating the 54 Household community banks acquired in 1996, was largely responsible for income growth of 21.4% at Harris Regional Banking in 1997.

In Personal and Commercial Financial Services the benefits of business volume growth and strong expense control were offset by lower margins and migration of customers to mbanx, resulting in a net income decline of 1.4%.

In a year when net income increased across most operating groups and income sources outside Canada topped 50% of our total income, we take this as further evidence of how well the Bank is adapting to the global marketplace, and how well our strategies are working for North America. *(Details: Page 30.)*

Asset Quality Management: A Well Diversified Portfolio

In order to maintain an appropriate risk-return relationship in 1997, we continued our strategic commitment to ensure a well diversified asset portfolio regardless of the economic environment.

Net credit losses on specific accounts were $75 million, an historically low level that reflects the continuing strength of our credit risk management practices. This performance results from considerable success in recovering previously recorded provisions, which had been established on a conservative basis. An additional $200 million was charged to current earnings to increase our general provisions, which brought the total provision for credit losses to $275 million, up $50 million from 1996.

Our commitment to prudent asset management policies was further reflected by the fact that $100 million of allowance for credit losses for Harris Regional Banking was transferred to the general allowance. As a result, the general allowance stands at $775 million, the maximum allowable by the Office of the Superintendent of Financial Institutions for inclusion in our Tier 2 capital.

At the same time, due to the improvement in asset quality coupled with generally favourable economic conditions, gross impaired loans declined for the fourth straight year, to $787 million in 1997 from $1,397 million in 1996, the previous record-holding year. As a result, for the first year on record the allowance for credit losses exceeds the gross amount of impaired loans. *(Details: Page 45.)*

Capital Management: Initiatives Accomplished

Driven by an 18.7% increase in the Bank's Tier 1 capital and a 17.0% increase in risk-weighted assets, we increased our Tier 1 Ratio from 6.71% in 1996 to 6.80% in 1997. The increase in Tier 1 capital was due largely to retained earnings growth plus the issuance of $400 million of preferred shares in the second quarter.

The increase in risk-weighted assets was a result of strong business volume growth partly offset by initiatives aimed at moderating growth to a level more supportable by internally generated capital. These initiatives included the securitization of $2 billion in credit card receivables and the purchase of portfolio insurance on $8 billion worth of conventional residential mortgages in Canada.

Along with the strengthening in the Tier 1 ratio and the issuance of $700 million in subordinated debt, our Total Capital Ratio (defined as the ratio of total capital to risk-weighted assets) increased from 9.11% in 1996 to 9.66%. *(Details: Page 48.)*

Liquidity Management: Large Base of Deposits

The Bank's total liquid assets increased by $13.2 billion or 21.8% in 1997, and our liquidity ratio — the ratio of cash, securities and deposits we have with other banks to total assets — dipped slightly from 35.8% in 1996 to 35.6%. Growth in most loan categories accounted for the increase in total assets. *(Details: Page 50.)*

Short- and Long-term Gain

In summary, the most striking feature of 1997 for the Bank of Montreal Group of Companies is not so much a new record for earnings, or the 17.1% achieved in our return on shareholders' equity. The most striking feature, rather, is that we were able to produce these and other good numbers, as discussed in more detail over the following pages, at the same time that we were investing very heavily — and very strategically — in the future.

While we were busy increasing shareholder value in 1997, in other words, we were also busy ensuring that shareholder value will continue to increase in the years ahead. And proving to ourselves, the marketplace and the world that if we think and plan ahead, our shareholders really can have it both ways.

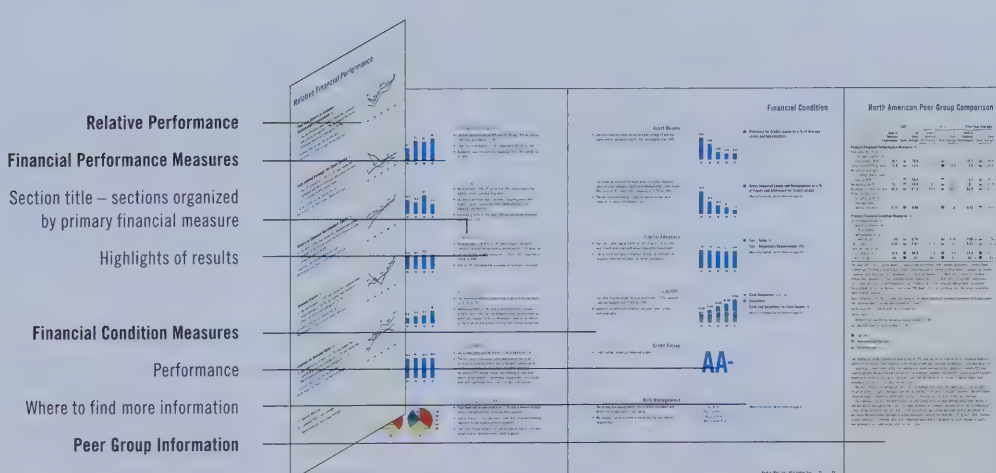
F. Anthony Comper
President and
Chief Operating Officer

Financial Goals and Measures Our financial objective is to maximize long-term shareholder value by achieving consistently superior (above average) earnings growth and return on common shareholders' equity while maintaining an appropriate dividend yield. We have and will continue to achieve this by adhering to our strategy to earn, grow and invest all at the same time; to advance management sciences; and to diversify lines of business.

Bank of Montreal

Performance at a Glance

To assess our financial performance and condition, we continuously monitor a set of ten financial measures which balance profitability and prudential concerns. Our goal is to achieve consistently superior performance relative to our peer groups, thereby achieving top tier (in the top quartile) return for our shareholders over the long term. The graphs and statistics on the following pages assess our performance on these "primary" measures in comparison to the six largest chartered banks in Canada (the Canadian peer group) and 23 of the largest banks in North America (the North American peer group). Top tier means being in the top two of the Canadian peer group and in the top six of the North American peer group. Definitions of the ten financial measures are disclosed in the Management Analysis of Operations section of the 1997 Annual Report beginning on page 20.



Canadian Bank Peer Group Comparison

	1997			1996			Five-Year Average		
	Bank of Montreal Performance	**Rank**	**Six Bank Average**	Bank of Montreal Performance	Rank	Six Bank Average	**Bank of Montreal Performance**	Rank	Six Bank Average
Primary Financial Performance Measures *(%)*									
Five-year return on common shareholders' investment (ROI)	**26.1**	◒	**27.3**	22.2	●	17.0	**26.1** *(a)*	◒	27.3 *(a)*
Fully diluted EPS growth	**11.9**	◒	**21.6**	22.2	◒	25.1	**14.5**	◒	37.1
Return on average common shareholders' equity (ROE)	**17.1**	◒	**18.0**	17.0	◓	16.5	**15.7**	●	14.2
Revenue growth	**15.1**	◒	**18.0**	9.9	◒	11.8	**10.1**	◒	10.3
Expense-to-revenue ratio	**64.4**	◒	**63.0**	63.4	◒	62.4	**62.8**	◒	62.5
Provision for credit losses as a % of average loans and acceptances	**0.23**	●	**0.33**	0.23	●	0.33	**0.45**	●	0.57
Primary Financial Condition Measures *(%)*									
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**7.65**	●	**13.68**	15.71	●	19.38	**7.65** *(b)*	●	13.68 *(b)*
Tier 1 ratio	**6.80**	◒	**6.89**	6.71	◒	6.83	**6.80** *(b)*	◒	6.89 *(b)*
Cash and securities-to-total assets	**35.6**	●	**25.4**	35.8	●	26.8	**35.6** *(b)*	●	25.4 *(b)*
Credit rating	**AA-**	◓	**AA-**	AA-	◓	AA-	**AA-** *(b)*	◓	AA- *(b)*

Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and The Toronto-Dominion Bank

(a) Reflects five-year ROI for the period ending October 31, 1997.

(b) Condition ratios are as at October 31, 1997.

● Top Tier

◓ Above Average/Average

◒ Below Average

Our ranking in the Canadian peer group in 1997 was top tier in three and above average in one of our ten financial measures, namely provision for credit losses as a percentage of average loans and acceptances, gross impaired loans and acceptances as a percentage of equity and allowances for credit losses, cash and securities-to-total assets, and credit rating, respectively. We were below average on six measures, namely five-year ROI, EPS growth, ROE, revenue growth, expense-to-revenue ratio, and the Tier 1 ratio.

We performed in the top tier for the credit risk management measure, provision for credit losses as a percentage of average loans and acceptances, in all of the last five years. We performed below average on revenue growth and expense-to-revenue ratio in three and four of the past five years, respectively.

Our ranking relative to the Canadian peer group on a five-year average basis was top tier in four and above average in one of our ten financial measures, including ROE, provision for credit losses as a percentage of average loans and acceptances, gross impaired loans and acceptances as a percentage of equity and allowances for credit losses, cash and securities-to-total assets, and credit rating, respectively. We were below average on five measures, namely five-year ROI, EPS growth, revenue growth, expense-to-revenue ratio, and the Tier 1 ratio.

The industry is performing at a high level, and at the same time our performance has been strong, with eight consecutive years of earnings growth.

Financial Performance

Five-Year Return on Common Shareholders' Investment *(%)*

More information can be found on page 21

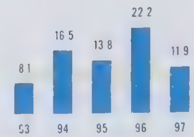
Shareholder Value

- Our five-year annualized ROI was 26.1%, up 3.9% ver 1996 five-year ROI of 22.2%.
- Share price increased 50.1% compared to 36.3% in 1
- Dividends paid per share increased $0.19 in 1997 and in 1996.

Fully Diluted Earnings Per Share Growth *(%)*

Objective (10%)

More information can be found on page 22.



Earnings Growth

- We achieved 11.9% EPS growth in 1997, which marks eighth consecutive year of growth.
- Income growth was due to business volume growth a higher Global Treasury and Investment and Corporate Banking contributions.
- Earnings growth in 1997 and 1996 was above the min objective of 10%.

Return on Common Shareholders' Equity *(%)*

Objective (14–15%)

More information can be found on page 23.

Profitability

- We achieved 17.1% ROE in 1997 which marks the eigh consecutive year that we have exceeded our 14–15%
- Our net income growth measured 11.7% in 1997 comp 18.4% in 1996.
- ROE in 1997 exceeded the economic performance thr

Revenue Growth *(%)*

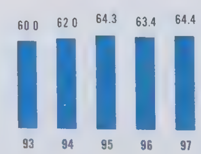
More information can be found on page 24.

Revenue Growth

- Our revenue growth increased from a rate of 9.9% last to 15.1% in 1997.
- Revenue growth in 1997 was driven by business volum growth, cash collections on impaired loans, and earning bonds and equities of lesser developed countries as well a strong other income growth from our fee-related businesse

Expense-to-Revenue Ratio *(%)*

More information can be found on page 28.



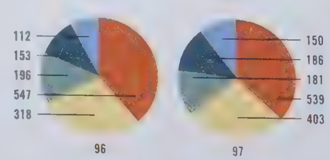
Productivity

- Our productivity ratio increased 1.0% to 64.4% in 1997.
- The increase in the productivity ratio was driven by an increase in expense growth due to variable compensation costs, investments for the future and other expenses including a $75 million charge representing accelerated depreciation related to technology changes and costs associated with improving the efficiency of our credit process.

Net Income by Operating Group *($ millions)*

PCFS
GTG
EFS
Harris
I&CB

More information can be found on page 30.



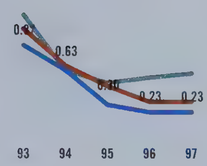
Operating Group Review

- Total Bank net income growth of 11.7% was achieved through diversified and differentiated business segments.
- Global Treasury Group and Investment and Corporate Banking represented our highest growth segments.
- Electronic Financial Services' net income decline of 7.4% was largely due to continued investment in mbanx.

Relative Financial Condition

Asset Quality

- Our provision for credit losses as a percentage of average loans and acceptances was 0.23%, unchanged from 1996.

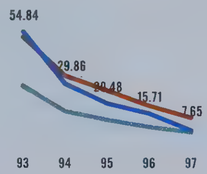


Provision for Credit Losses as a % of Average Loans and Acceptances *(%)*

- Our performance in this category placed us in the top tier relative to the Canadian and North American peer groups, which measured 0.33% and 0.60%, respectively.

Canadian Peer Group: Top Tier
North American Peer Group: Top Tier

- Our financial measure for asset quality is gross impaired loans as a percentage of equity and allowance for credit losses. This ratio in 1997 was 7.6% compared to 15.7% in 1996.
- The decrease was due to strong recoveries as well as a reduced incidence of problem loans.



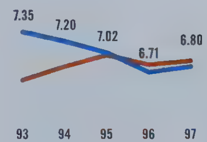
Gross Impaired Loans and Acceptances as a % of Equity and Allowance for Credit Losses

- Relative to the Canadian peer group at 13.68%, our performance was top tier. The North American peer group average for 1997 was 6.76%.

Canadian Peer Group: Top Tier
North American Peer Group: Below Average

Capital Adequacy

- Our Tier 1 ratio rose to 6.80% in 1997 from 6.71% in 1996, and in both years was well above regulatory requirements.
- The increase was due to retained earnings growth and the issuance of preferred shares in the second quarter.



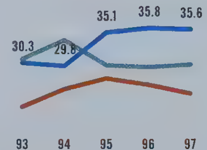
Tier 1 Ratio *(%)*

- Our Tier 1 ratio was below the Canadian peer group average of 6.89%.
- On a U.S. basis, our Tier 1 ratio was 6.35% in 1997 compared to the North American peer group average of 7.61%.

Canadian Peer Group: Below Average
North American Peer Group: Below Average

Liquidity

- Our ratio of liquid assets to total assets was 35.6%, substantially unchanged from 35.8% in 1996.
- Deposits are well diversified by customer, type, currency and geography.



Cash and Securities-to-Total Assets *(%)*

- Relative to the Canadian and North American peer groups at 25.4% and 30.0%, respectively, our liquidity ratio placed us in the top tier for both Canadian and North American marketplaces.

Canadian Peer Group: Top Tier
North American Peer Group: Top Tier

Credit Rating

- Credit rating composite remained stable.

AA-

Credit Rating

Canadian Peer Group: Average
North American Peer Group: Top Tier

Risk Management

- Our strong risk management culture drives a prudent and professional approach to risk-taking.
- We manage risk with a view to balancing the risk-reward relationship.

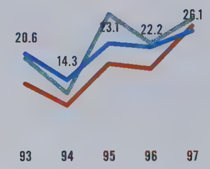
- Bank of Montreal
- Canadian Peer Group Average
- North American Peer Group Average

Relative Financial Performance

Five-Year Return on Common Shareholders' Investment *(%)*

- Our performance was slightly below the Canadian peer group average of 27.3%, and below the North American peer group average of 29.0%.

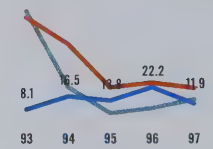
Canadian Peer Group: Below Average
North American Peer Group: Below Average



Fully Diluted Earnings Per Share Growth *(%)*

- Our EPS growth of 11.9% in 1997 was below the Canadian and North American peer group averages of 21.6% and 14.4% respectively.

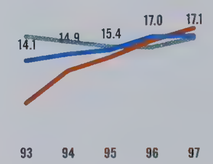
Canadian Peer Group: Below Average
North American Peer Group: Below Average



Return on Common Shareholders' Equity *(%)*

- Our ROE in 1997 was below the Canadian peer group average of 18.0% and above the North American peer group average of 16.8%.

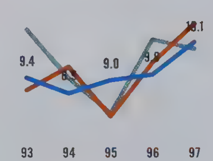
Canadian Peer Group: Below Average
North American Peer Group: Above Average



Revenue Growth *(%)*

- Our performance in 1997 was below the Canadian peer group average of 18.0%, but higher than the North American peer group average of 14.0%.

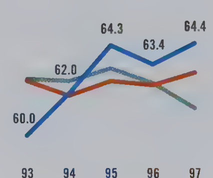
Canadian Peer Group: Below Average
North American Peer Group: Above Average



Expense-to-Revenue Ratio *(%)*

- Our relative performance in 1997 was below the Canadian peer group average of 63.0% and below the North American peer group average of 61.3%.

Canadian Peer Group: Below Average
North American Peer Group: Below Average



- Bank of Montreal
- Canadian Peer Group Average
- North American Peer Group Average

Shareholder Value

- Our five-year annualized ROI was 26.1%, up 3.9% versus our 1996 five-year ROI of 22.2%.
- Share price increased 50.1% compared to 36.3% in 1996.
- Dividends paid per share increased $0.19 in 1997 and $0.12 in 1996.

Earnings Growth

- We achieved 11.9% EPS growth in 1997, which marks the eighth consecutive year of growth.
- Income growth was due to business volume growth and higher Global Treasury and Investment and Corporate Banking contributions.
- Earnings growth in 1997 and 1996 was above the minimum objective of 10%.

Profitability

- We achieved 17.1% ROE in 1997 which marks the eighth consecutive year that we have exceeded our 14–15% objective.
- Our net income growth measured 11.7% in 1997 compared to 18.4% in 1996.
- ROE in 1997 exceeded the economic performance threshold.

Revenue Growth

- Our revenue growth increased from a rate of 9.9% last year to 15.1% in 1997.
- Revenue growth in 1997 was driven by business volume growth, cash collections on impaired loans, and earnings on bonds and equities of lesser developed countries as well as strong other income growth from our fee-related businesses.

Productivity

- Our productivity ratio increased 1.0% to 64.4% in 1997.
- The increase in the productivity ratio was driven by an increase in expense growth due to variable compensation costs, investments for the future and other expenses including a $75 million charge representing accelerated depreciation related to technology changes and costs associated with improving the efficiency of our credit process.

Operating Group Review

- Total Bank net income growth of 11.7% was achieved through diversified and differentiated business segments.
- Global Treasury Group and Investment and Corporate Banking represented our highest growth segments.
- Electronic Financial Services' net income decline of 7.4% was largely due to continued investment in mbanx.

Asset Quality

- Our provision for credit losses as a percentage of average ...s and acceptances was 0.23%, unchanged from 1996.

■ **Provision for Credit Losses as a % of Average Loans and Acceptances**

- O...financial measure for asset quality is gross impaired ... percentage of equity and allowance for credit losses. ...in 1997 was 7.6% compared to 15.7% in 1996.
- T...crease was due to strong recoveries as well as a ... incidence of problem loans.

■ **Gross Impaired Loans and Acceptances as a % of Equity and Allowance for Credit Losses**

More information can be found on page 45.

Capital Adequacy

- ...er 1 ratio rose to 6.80% in 1997 from 6.71% in 1996, ...th years was well above regulatory requirements. ...ase was due to retained earnings growth and the ... of preferred shares in the second quarter.

■ **Tier 1 Ratio** *(%)*

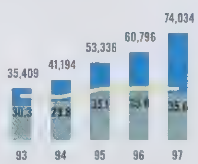
Tier 1 Regulatory Requirement (4%)

More information can be found on page 48.

Liquidity

...of liquid assets to total assets was 35.6%, substan...changed from 35.8% in 1996.

...s are well diversified by customer, type, currency ...graphy



■ **Cash Resources** *($ millions)*

■ **Securities**

Cash and Securities-to-Total Assets *(%)*

More information can be found on page 50.

Credit Rating

...rating composite remained stable.

AA-

Risk Management

- ...strong risk management culture drives a prudent and ...fessional approach to risk-taking.
- We manage risk with a view to balancing the risk-reward relationship.

- Credit Risk
- Position Risk
- Liquidity Risk
- Operational Risk

More information can be found on page 41.

North American Peer Group Comparison

	1997			1996 *(a)*			Five-Year Average		
	Bank of Montreal Performance	Rank	**23 Bank Average**	Bank of Montreal Performance	Rank	23 Bank Average	**Bank of Montreal Performance**	Rank	23 Bank Average
Primary Financial Performance Measures *(%)*									
Five-year return on common shareholders' investment (ROI)	**26.1**	◒	**29.0**	22.2	◒	23.1	**26.1** *(c)*	◒	29.0 *(c)*
Fully diluted EPS growth	**11.9**	◒	**14.4**	22.2	●	8.9	**14.5**	◒	24.4
Return on average common shareholders' equity (ROE)	**17.1**	◓	**16.8**	17.0	◓	15.7	**15.7**	◒	16.3
Revenue growth	**15.1**	◓	**14.0**	9.9	◒	15.5	**10.1**	◒	11.9
Expense-to-revenue ratio	**64.4**	◒	**61.3**	63.4	◒	62.5	**62.8**	◒	62.5
Provision for credit losses as a % of average loans and acceptances	**0.23**	●	**0.60**	0.23	●	0.56	**0.45**	◓	0.69
Primary Financial Condition Measures *(%)*									
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**7.65**	◒	**6.76**	15.71	◒	9.28	**7.65** *(d)*	◒	6.76 *(d)*
Tier 1 ratio *(b)*	**6.35**	◒	**7.61**	6.26	◒	7.60	**6.35** *(d)*	◒	7.61 *(d)*
Cash and securities-to-total assets	**35.6**	●	**30.0**	35.8	●	29.6	**35.6** *(d)*	●	30.0 *(d)*
Credit rating	**AA–**	●	**A+**	AA–	●	A+	**AA–** *(d)*	●	A+ *(d)*

The selection of the 23 largest banks is based on the size of their 1996 common shareholders' equity: Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, The Toronto-Dominion Bank, Banc One Corp., BankAmerica Corporation, Bankers Trust New York Corporation, The Bank of New York Company, Inc., The Chase Manhattan Corporation, Citicorp N.A., First Chicago NBD Corporation, First Union Corporation, Fleet Financial Group, J.P. Morgan & Co. Inc., Keycorp, Mellon Bank Corporation, NationsBank Corporation, Norwest Corporation, PNC Bank Corp., SunTrust Banks, Inc., Wachovia Corporation, Wells Fargo & Company.

Note: Performance for the U.S. banks was based on the twelve-month period ended September 30 to approximate the Canadian bank fiscal year which ended on October 31.

(a) Reclassified to conform with 1997 presentation.

(b) U.S. basis

(c) Reflects five-year ROI for the period ending October 31, 1997.

(d) Condition ratios are as at October 31, 1997.

● Top Tier

◓ Above Average/Average

◒ Below Average

Our ranking in the North American peer group in 1997 was top tier in three of our ten financial measures, namely provision for credit losses as a percentage of average loans and acceptances, cash and securities-to-total assets, and credit rating. Our ranking was above average in two categories, namely ROE and revenue growth. We were below average on five measures, namely five-year ROI, fully diluted EPS growth, expense-to-revenue ratio, gross impaired loans and acceptances as a percentage of equity and allowance for credit losses, and the Tier 1 ratio.

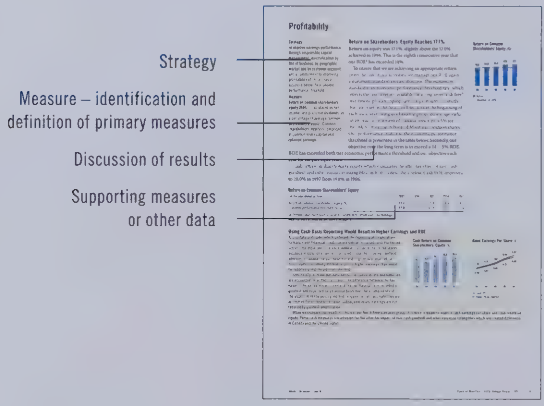
We performed above average on the credit risk management measure, namely provision for credit losses as a percentage of average loans and acceptances, in each of the past five years. We performed below average on revenue growth and expense-to-revenue ratio in three of the past five years.

Our ranking relative to the North American peer group on a five-year average basis was top tier in two and above average in one of our ten financial measures, namely cash and securities-to-total assets, credit rating, and provision for credit losses as a percentage of average loans and acceptances, respectively. We were below average on seven measures, namely five-year ROI, EPS growth, ROE, revenue growth, expense-to-revenue ratio, gross impaired loans and acceptances as a percentage of equity and allowance for credit losses, and the Tier 1 ratio.

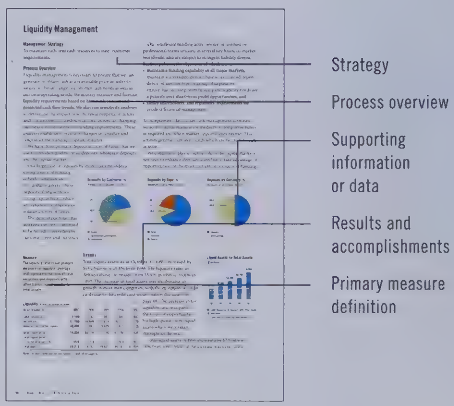
This section of the Annual Report provides management's discussion and analysis of the financial condition of Bank of Montreal and our financial performance for the years ended October 31, 1997 and 1996. The analysis focuses on our financial strategies and results and is organized around ten primary measures used to monitor our overall financial performance and condition. The analysis is based on our consolidated financial statements which are presented later in the Annual Report beginning on page 66. All dollar amounts are in Canadian dollars unless otherwise stated.

Management Analysis of Operations

Financial Performance



Financial Condition



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Shareholder Value

Strategy:
To maximize shareholder value through consistent earnings per share growth, profitability and responsible capital management. In summary, our strategy is to earn, grow and invest all at the same time; to advance management sciences; and to diversify lines of business.

Measures:
We analyze two principal measures to determine success in providing superior shareholder value:

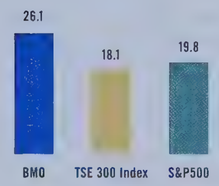
- **Five-year return on common shareholders' investment (five-year ROI),** the primary measure, is an indicator of long-term success in driving shareholder value;
- **Annual return on common shareholders' investment (ROI)** is a measure to analyze shareholder value in the short term.

In both measurements, ROI is calculated as the annualized total return earned on an investment in Bank of Montreal common shares made at the beginning of each period. Total return includes the effect of the change in share price and the reinvestment of received dividends in additional Bank of Montreal common shares.

Five-Year Annualized Return on Investment Reaches 26.1%

Return on common shareholders' investment is the most important of our ten primary measures. We believe that if we can consistently deliver an above-average level of value to shareholders, then both shareholders and management will achieve success.

Five-Year Return on Investment *(%)*



Return on Common Shareholders' Investment

For the year ended October 31	**1997**	1996	1995	1994	1993
Closing market price per common share *($)*	**60.85**	40.55	29.75	25.13	26.88
Dividends paid *($ per share)*	**1.60**	1.41	1.29	1.18	1.11
Dividend yield *(%) (a)*	**3.9**	4.7	5.1	4.4	4.7
Five-year ROI *(%)*	**26.1**	22.2	23.1	14.3	20.6
ROI *(%)*	**55.0**	42.4	24.1	(2.3)	19.4

(a) Dividends paid in the year divided by the opening stock price.
Note: For more information see Table 1 on page 52.

BMO Closing Price Per Common Share *($)*

Over the past five years, shareholders have received a 26.1% return on their investment in Bank of Montreal. This return exceeded the market return (TSE 300) of 18.1% over the same period. Our returns were driven by a combination of a 158% appreciation in share price since the beginning of 1993, and a $0.49 increase in annual dividends paid on common shares.

In 1997, shareholders earned a 55.0% return on their investment in Bank of Montreal, which exceeded the market return (TSE) of 24.4% by 3060 basis points. Return on investment in 1997 was driven by our strong performance, higher valuations given to Canadian banks in general and a robust North American economy.

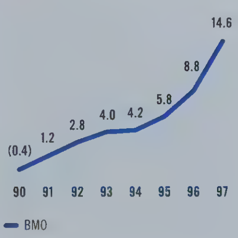
Bank of Montreal to Adopt Economic Measure of Contribution to Overall Shareholder Value

In order to focus business units on enhancing overall shareholder value, we will be adopting a new measure of contribution during the 1998 fiscal year – Net Economic Profit (NEP). Economic profit will be reported income less preferred dividends or net income available for common shareholders, adjusted for a number of items to more accurately reflect the economic or cash contribution by a unit on an ongoing basis. Adjustments include those related to accounting for business acquisitions, loan losses on an "expected" loss basis, and exclusion of any non-recurring and unusual items. A charge for the cost of common equity capital is then deducted to arrive at NEP.

The benefit of this measure is that it focuses not only on the cash income contributed by a unit but also on the capital resources applied to deriving that income. Business units will be allocated capital relative to the economic risks they undertake; the nature of these risks include credit, position and other forms of business risk. The rate to be applied to capital to determine the charge will be equal to the economic performance threshold rate (as described on page 23), labelled cost of equity below.

Increasing NEP will normally enhance shareholder value, and business units will be given NEP growth targets commensurate with their individual lines of business and market positions. NEP will also be used as the basis for resource allocation and investment decisions.

Total Return to Shareholders
($ billions)



Total return to shareholders is measured by the change in market capitalization plus the dividends (dividends paid, not reinvested) over a specified period of time. Over the past eight years, our return to shareholders was $14.6 billion which is comprised of $12.1 billion in increased market capitalization and $2.5 billion in increased dividends.

Historical Net Economic Profit

For the year ended October 31	**1997**	1996	1995	1994	1993
Cost of equity *(%)*	**12.0**	12.0	12.0	13.0	12.5
Net economic profit *($ millions)*	**433**	398	297	177	107

For the above, expected losses are assumed to equal the reported loan loss provision each year.

Earnings Growth

Strategy:
To provide consistent earnings growth through diversified revenue growth strategies, productivity improvement initiatives and prudent risk management.

Measure:
Year-over-year percentage change in fully diluted earnings per share (EPS) is our primary measure to analyze earnings growth. It is calculated by dividing earnings available to common shareholders for the year by the daily average number of common shares that would have been outstanding, assuming conversion as at the beginning of the year or at the date of issuance of all securities that are convertible or redeemable for common shares and that are considered dilutive.

Eight Consecutive Years of Earnings Growth

In 1997, fully diluted earnings per share was $4.62, an 11.9% improvement over $4.13 in 1996. This year marks our eighth consecutive year of EPS growth and the fourth consecutive year that we have achieved our 10% EPS growth objective. Average EPS growth over the past five years was 14.5%. Income growth, a secondary measure used to measure profitability, was 11.7% in 1997, compared to 18.4% in 1996.

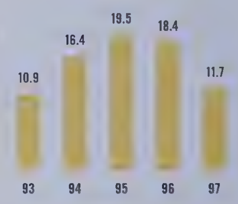
Earnings Growth

For the year ended October 31	**1997**	1996	1995	1994	1993
Net Income *($ millions)*	**1,305**	1,168	986	825	709
Year-over-year growth *(%)*	**11.7**	18.4	19.5	16.4	10.9
Fully diluted earnings per share *($)*	**4.62**	4.13	3.38	2.97	2.55
Year-over-year growth *(%)*	**11.9**	22.2	13.8	16.5	8.1

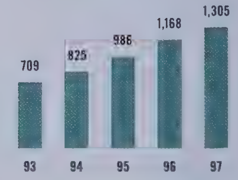
Note: For more information see Table 2 on page 52.

Fully Diluted EPS Growth *(%)*

Net Income Growth *(%)*



Net Income *($ millions)*



Earnings growth in 1997 was driven by strong business volume growth, cash collections on impaired loans† and earnings on bonds and equities of lesser developed countries partly offset by continued investment in the future and a $75 million charge for accelerated depreciation and credit process efficiency improvement. We continued to benefit in 1997 from our state-of-the-art credit risk management practices. Our earnings included a $200 million charge to increase our general allowance for credit losses†, excluding which ROE and EPS would have been 18.7% and $5.05, respectively.

Our strong performance results from the benefits of being diversified as economic conditions change. Concurrently, we invested to ensure continued revenue growth in the future and we grew the level of our general reserves. This typifies our financial philosophy, which is to "earn, grow and invest" all at the same time.

Revenue growth was 15.1% and was primarily in Investment and Corporate Banking and Global Treasury, both of which benefited from buoyant capital markets. Cash collections on impaired loans and earnings on bonds and equities of lesser developed countries also contributed to Global Treasury's revenue growth. The Canadian and U.S. retail segments enjoyed strong asset growth driven by the North American economy, which has continued to expand. Additional detail on revenue growth is located on page 24.

Net credit losses on specific accounts amounted to $75 million, a historically low level, reflecting the continued strength of our credit risk management practices. This performance is a result of a large level of recoveries and reversals of previously recorded provisions which had been established on a conservative basis. An additional $200 million was charged to current earnings to increase the level of our general allowance, bringing the total provision for credit losses† to $275 million, up $50 million from last year. The $200 million, together with a reclassification of $100 million from Harris Regional Banking's allowance, raised the total general allowance to $775 million, the maximum allowable by the Office of the Superintendent of Financial Institutions (OSFI) for inclusion in our Tier 2 capital.

Expense growth was 16.8%. Revenue-driven expenses and costs related to strategic investments for future growth represented the major components. Also, we recorded a $75 million charge in the fourth quarter for accelerated depreciation related to technology changes and for costs associated with improving the efficiency of our credit process. Refer to page 28 for more detail on expense growth.

Over the past few years, we have invested more than $2 billion in strategic spending. We believe that this spending is necessary to ensure future earnings growth, especially in light of the rapidly changing financial environment. The primary investments made over the past few years in Harris Regional Banking, Grupo Financiero Bancomer (Bancomer) and Nesbitt Burns have contributed to an overall $100 million increase in total earnings from these areas of the Bank.

Earnings growth of 18.4% in 1996 was primarily due to diversified business volume growth and higher Investment and Corporate Banking and Global Treasury Group revenues partly offset by lower spreads, resulting in revenue growth of 9.9%. Expense growth in 1996 was 8.3% due to an increase in revenue-driven expenses, investments in the future and other expenses.

† Defined in the Glossary on page 90

Profitability

Strategy:
To improve earnings performance through responsible capital management; diversification by line of business, by geographic market and by customer segment; and a commitment to improving profitability of those lines of business below the economic performance threshold.

Measure:
Return on common shareholders' equity (ROE) is calculated as net income, less preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital and retained earnings.

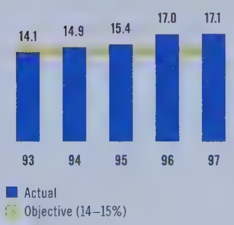
Return on Shareholders' Equity Reaches 17.1%

Return on equity was 17.1%, slightly above the 17.0% achieved in 1996. This is the eighth consecutive year that our ROE† has exceeded 14%.

To ensure that we are achieving an appropriate return given the risk of our activities, we manage our ROE against a minimum standard and an objective. The minimum standard is an economic performance threshold rate, which reflects the rate of return available for a long-term "risk-free" investment, plus an appropriate risk premium. Currently, this rate is set by the Board of Directors at the beginning of each fiscal year, using as a basis the projected average yield on 10-year Government of Canada bonds, plus 5% for the risk of investing in Bank of Montreal common shares. Our performance relative to the economic performance threshold is presented in the table below. Secondly, our objective over the long term is to exceed a 14–15% ROE. ROE has exceeded both our economic performance threshold and our objective each year for the past eight years.

Cash return on shareholders' equity, which eliminates the after-tax effect of non-cash goodwill and other valuation intangibles on ROE, is described below. Cash ROE improved to 20.0% in 1997 from 19.8% in 1996.

Return on Common Shareholders' Equity *(%)*



Return on Common Shareholders' Equity

For the year ended October 31	**1997**	1996	1995	1994	1993
Return on common shareholders' equity *(%)*	**17.1**	17.0	15.4	14.9	14.1
Economic performance threshold *(%) (a)*	**12.0**	12.0	12.0	13.0	12.5

(a) Previous years have been restated to conform with current year's methodology.
Note: For more information see Table 3 on page 52.

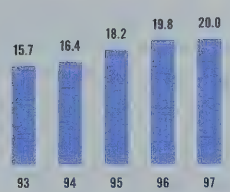
Using Cash Basis Reporting Would Result in Higher Earnings and ROE

Accounting principles which underpin the reporting of financial performance and financial condition are similar in Canada and the United States. One important difference, however, is that in the United States, business acquisitions can be structured to use the "pooling" method, whereas in Canada the purchase method is generally required. In most cases, the pooling method results in higher earnings than would be reported using the purchase method.

Specifically, with the purchase method, acquired assets and liabilities are accounted for at their fair value. The difference between the fair value of the net assets acquired and the purchase price is recorded as goodwill and expensed on an annual basis over the estimated life of the assets. With the pooling method, acquired assets and liabilities are accounted for at their book value. Subsequent years' earnings are not reduced by goodwill amortization.

When we compare our results to those of our North American peer group, it is more relevant to analyze cash earnings per share and cash return on equity. These cash measures are adjusted for the after-tax impact of non-cash goodwill and other valuation intangibles which are treated differently in Canada and the United States.

Cash Return on Common Shareholders' Equity *(%)*



Basic Earnings Per Share *($)*

† *Defined in the Glossary on page 90*

Revenue Growth

Strategy:
To grow total revenues consistently by providing valued products and services to customers while ensuring a reasonable risk-return relationship.

Measure:
Percentage change in total year-over-year revenue is our primary measure of revenue growth. Total revenue consists of net interest income and other income.

Record Revenue Growth at 15.1%

Revenue growth in 1997 was 15.1% compared to 9.9% in 1996. This revenue growth was driven by a 12.8% increase in net interest income largely due to volume growth, and an 18.5% increase in other income driven by an increase in our fee related businesses.

In 1996, the 9.9% increase in revenue was comprised of net interest income growth of 4.1% due to business volume growth and a 19.7% increase in other income due to capital market fees resulting from stronger equity markets, increased new issue activity and increased secondary trading volumes.

Total Revenue *($ millions)*

For the year ended October 31	**1997**	1996*	1995*	1994*	1993*
Net interest income (TEB)	**4,186**	3,711	3,564	3,325	3,207
Year-over-year growth *(%)*	**12.8**	4.1	7.2	3.7	5.6
Other income	**2,981**	2,516	2,102	1,871	1,654
Year-over-year growth *(%)*	**18.5**	19.7	12.3	13.1	17.8
Total revenue	**7,167**	6,227	5,666	5,196	4,861
Year-over-year growth *(%)*	**15.1**	9.9	9.0	6.9	9.4

**Reclassified to conform with the current year's presentation.*
Note: For more information see Table 4 on page 53.

Revenue Growth *(%)*

Other Income as a % of Total Revenue

Net Interest Income Growth of 12.8%

Net interest income is comprised of interest and dividend revenue earned on total assets, less interest expense incurred on total liabilities. Net interest income growth is a function of volume growth and average net interest margin. Net interest margin is defined as the difference between the interest rate earned on total average assets and the interest rate paid on total average liabilities. Our net interest income in 1997, on a taxable equivalent basis (TEB)† was $4,186 million, an increase of 12.8% over $3,711 million in 1996.

The 12.8% increase in net interest income in 1997 was due to an increase in business volumes (8.3%), an increase in income earned from equity and bond sales from lesser developed countries (1.3%), an increase in revenues from loan recoveries (2.3%), as well as an increased contribution from our 16.2% equity investment in Bancomer (0.9%).

Attribution Gives a More Comprehensive View of Our Results

In 1996, we made an important advance in our North American strategy by acquiring a 16.2% equity stake in Bancomer, Mexico's leading retail financial institution. As we have the ability to significantly influence, but not control Bancomer, accounting principles require that the investment be equity accounted, meaning that Bancomer's results are not fully consolidated with our results. Rather, our proportionate share of Bancomer's net income is reported in our net interest income. This method of accounting does not provide insight into the full extent of our interest in Bancomer's business operations and service capability.

Attribution, which reports our proportionate share of the assets, revenues, expenses and service infrastructure of equity investees such as Bancomer, provides a greater understanding and a more comprehensive view of our results for the year.

Illustrated at the right are a number of measures which indicate the extent to which our operations and service capability are enhanced by our investment in Bancomer.

	1997		1996	
As at or for the year ended October 31	**Attributed**	**Reported**	Attributed	Reported
Total assets *($ millions)*	**213,382**	**207,838**	175,301	169,832
Revenues *($ millions)*	**7,575**	**7,167**	6,438	6,227
Expenses *($ millions)*	**4,881**	**4,613**	4,068	3,949
Number of bank branches	**1,449**	**1,246**	1,441	1,296
Number of automated bank machines	**2,359**	**2,035**	2,322	2,017

Based upon our 16.2% proportionate share of Bancomer reported results. Revenues include net interest income reported on a taxable equivalent basis and other income.

† *Defined in the Glossary on page 90*

Business Volume Growth Drove Increase in Net Interest Income

Business volume growth drove the increase in net interest income. Our total average assets increased 24.3% in 1997 to $197 billion following an increase of 9.9% in 1996 as noted in the table below. The increase in assets was achieved on a diversified basis, with growth in most lines of business and across all geographic regions. The greatest volume growth was achieved in Global Treasury and Investment and Corporate Banking. The asset growth in these areas was primarily due to an increase in trading volumes and reverse repos†. The asset growth in Personal and Commercial Financial Services of 6.3% was principally driven by the 12.8% increase in residential mortgages. Asset growth in Electronic Financial Services is largely the result of our growing mbanx™ division. The asset growth in Harris Regional Banking reflects an increase in commercial loans, instalment loans, mortgages and agency securities. The decrease in the Support areas is largely attributable to the $2.0 billion securitization of credit card receivables. The transaction is described in more detail in note 16 to the financial statements on page 81. Further detail on the increase in net interest income is shown in Tables 6 and 7 on pages 55 and 56.

Change in Net Interest Income

	Average Assets *($ billions)*			Net Interest Income *($ millions)*		
For the year ended October 31	**1997**	1996	% increase	**1997**	1996	% increase
Personal and Commercial Financial Services	**59**	55	6.3	**2,119**	2,079	1.9
Global Treasury Group	**69**	45	54.6	**747**	533	40.1
Electronic Financial Services	**9**	7	25.4	**583**	503	16.0
Harris Regional Banking	**26**	23	12.3	**705**	624	13.0
Investment and Corporate Banking	**36**	26	39.2	**100**	52	92.9
Support	**(2)**	2		**(68)**	(80)	
Total Bank	**197**	158	24.3	**4,186**	3,711	12.8
Total Bank margin *(basis points)*				**213**	234	(21)

Note: For more information see Table 5 on page 54.

Lower Margins Resulted from an Increased Mix of Low-Margin Businesses and Lower Interest Rates

Average net interest margin is the ratio of net interest income to average assets. Our total interest margin declined 21 basis points from 1996 to 1997, of which 8 basis points reflect the gross-up of assets for unrealized gains on derivatives in accordance with accounting requirements. 1996 data was not restated. The factors contributing to the remaining net 13 basis point decline in interest margin are discussed below.

Increased earnings from equities and bonds of lesser developed countries contributed positively to our interest margin ($48 million). In addition, cash collections on impaired loans increased ($86 million) due to the improved North American economy, and the contribution from our equity investment in Bancomer increased by $32 million.

The positive effects on interest margin were more than offset by factors which contributed to the overall decline in net interest margin in 1997. First, we experienced high growth in lower-yielding liquid assets, particularly in Investment and Corporate Banking and Global Treasury, as noted in the table above. Although this mix change reduced average net interest margin, growth of these products in Global Treasury and Investment and Corporate Banking contributed positively to revenue. Second, as interest rates declined in 1997, the rates earned on loans were lowered; however, the costs on several deposit products did not fall to the same extent due to the existence of price floors. The effect of this compression was most pronounced in our retail business.

The decline of 13 basis points from 1995 to 1996 (see Table 5 on page 54) is largely due to the same reasons outlined above. While we benefited from earnings from our investment in Bancomer ($50 million), we also experienced a high rate of growth in our lower-margin assets. Rate compression due to the declining interest rate environment was another contributing factor to the overall decline.

™ *Trade mark of Bank of Montreal*
† *Defined in the Glossary on page 90*

Revenue Growth Continued

Other Income Growth Due to an Increase in Fee-Related Businesses

Other income is comprised of all revenue other than net interest income, such as service charges, lending fees, capital market fees, card services fees, mutual fund fees, commission revenue and trading income.

Other income increased $465 million to $2,981 million in 1997, or 18.5%, following an increase of 19.7% in 1996. Growth in other income was primarily due to higher capital market fees, increased investment management and custodial fees, and higher mutual fund revenues.

Growth in income from deposit and payment service charges resulted from an increase in the number of transactions as opposed to an increase in service charges relative to 1996. The increase in lending fees reflected a number of sizeable underwriting deals that were completed in our Global Distribution area. Income from capital market fees includes commission revenue, and underwriting and advisory fees. The increase in capital market fees resulted from the continued strong capital markets in North America, increased issue activity and secondary trading volumes. The increase in card services income was due to growth in our credit card volumes and the accounting treatment of the credit card securitizations, which includes a reclassification of income from net interest income to other income. The increase in mutual fund revenues mainly resulted from growth in assets under management which grew 51.1% from $34,978 million to $52,869 million in 1997. Other fees and commissions include revenue from insurance-related activities, foreign exchange revenue other than trading, investment securities gains and losses, and gains and losses from disposal of premises and equipment. The increase from this area was primarily due to revenues from insurance-related activities reflecting increased premiums as well as an increase due to a 1996 write-down of capital assets.

Components of Other Income *($ millions)*

For the year ended October 31	**1997**	1996*	1995*	1994*	1993*
Deposit and payment service charges	**508**	473	451	437	430
Lending fees	**240**	194	186	180	145
Capital market and other fees	**919**	760	495	313	238
Card services fees	**283**	234	230	211	208
Investment management and custodial fees	**299**	221	240	197	194
Mutual fund revenues	**155**	87	53	56	30
Trading revenue	**276**	277	225	226	202
Other fees and commissions	**301**	270	222	251	207
Total	**2,981**	2,516	2,102	1,871	1,654

**Reclassified to conform with the current year's presentation.*

Trading revenue includes net interest and other income derived from on- or off-balance sheet positions considered by management to be undertaken for trading purposes. All trading portfolios are marked-to-market† daily.

Total revenue from trading-related activities, which includes trading income recorded in net interest income as well as that which is recorded in other income, decreased 2.1% in 1997 compared to a 17.0% increase in 1996. The relatively flat performance in 1997 was primarily due to an increase in foreign exchange revenues and financing portfolios due to market volatility†, more than offset by a decrease in public debt related revenues, where we continue to face challenging market conditions in North America as governments reduce deficits and spreads narrow.

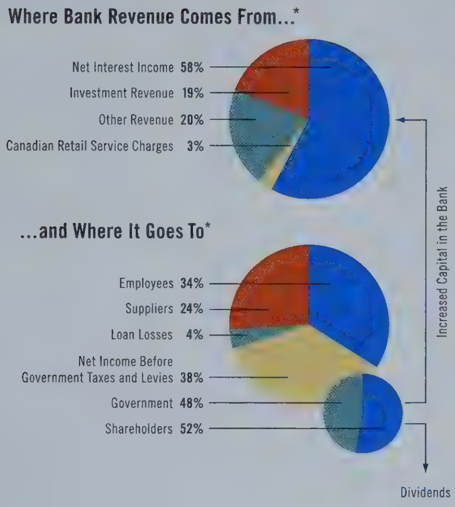
Trading-Related Revenue *(a) ($ millions)*

For the year ended October 31	**1997**	1996*	1995*	1994*	1993*
Total Trading					
Global financial products	**52**	42	17	36	15
Foreign exchange	**92**	83	56	35	96
Financing portfolios	**22**	(2)	0	(7)	1
Institutional equities/public debt	**85**	108	137	143	93
Other	**33**	58	38	42	73
	284	289	248	249	278
Reported in					
Net interest income	**8**	12	23	23	76
Other income – trading revenue	**276**	277	225	226	202

(a) Includes organizational units whose predominant business is maintaining trading positions which are marked-to-market.

**Reclassified to conform with the current year's presentation.*

†Defined in the Glossary on page 90



More than half of our revenue is generated from net interest income with a small proportion from service charges.

Within the context of the economy at large, we act as a financial intermediary or conduit, with revenues from customers flowing to employees, suppliers, and to the government and shareholders, with a portion of the shareholder share retained by us to fuel future growth and investment.

** Note: Investment Revenue represents capital market fees, investment management and custodial fees and mutual fund revenues; Canadian Retail Service Charges represent deposit and payment service charges; Employees segment represents employee salaries and benefits expenses; Suppliers segment represents total expenses less employee expenses and government-related expenses; Government segment represents income taxes and other government levies; Shareholders segment represents net income and minority interest; Increased Capital in the Bank segment represents net income less dividends.*

Where Bank Revenue Comes From... and Where It Goes To

Government Levies and Taxes Represented 46.7% of Our Pre-tax Earnings

Total government levies and taxes of $1,226 million in 1997 represented just less than half of our net income before taxes and government levies.

The provision for taxes in the Income Statement as a percentage of pre-tax income was 38.7% versus 38.9% in 1996 as shown in note 13 to the consolidated financial statements on page 80. The effective tax rate of 38.7% was below the Canadian combined statutory tax rate of 41.9% due largely to our investment in foreign subsidiaries, whose earnings were taxed at lower rates.

Government Levies and Taxes *($ millions except as noted)*

For the year ended October 31	**1997**	1996	1995	1994	1993
Government levies other than income taxes	**478**	460	429	375	346
Provision for taxes – Income Statement	**840**	757	662	560	487
Provision for taxes – Retained Earnings	**(92)**	10	9	(23)	(46)
Total government levies and taxes	**1,226**	1,227	1,100	912	787
Net income	**1,305**	1,168	986	825	709
Government levies and taxes as a % of net income before government levies and taxes	**46.7**	51.4	53.0	51.8	51.1

Note: For more information see Table 8 on page 57.

Strategic Acquisition and Other Capital Spending *($ millions)*

Note: Capital Investment represents capital assets acquired or internally developed including salaries and other amounts for technology development reported in non-interest expense. Strategic Acquisitions represent investment spending in respect of an equity position or assets of another institution acquired for strategic purposes.

Investment Spending

We define investment spending as (i) strategic acquisition spending and (ii) other capital spending which is primarily technology-related. The illustration at the left reflects our spending relative to these categories.

Spending in technological development continued in 1997, representing our commitment to a modern banking environment. However, due to the purchase of Household Bank's retail business and the purchase of a 16.2% equity stake in Bancomer in 1996, the relative spending level has decreased. As mentioned on page 22, the primary investments made over the past few years in Harris Regional Banking, Bancomer and Nesbitt Burns have contributed to an overall $100 million increase in total earnings from these areas of the Bank in 1997 alone.

Productivity

Strategy:
To achieve above-average productivity through a combination of strong cost management and above-average growth in revenues.

Measure:
Non-interest expense divided by total revenues is our primary measure of productivity. The ratio is calculated on a taxable equivalent basis.

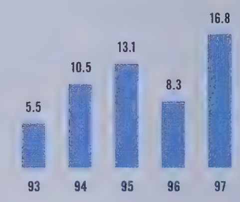
Productivity Ratio Remains in Mid-60s as We Continue to Invest for the Future

Our expense-to-revenue ratio increased 100 basis points in 1997 to 64.4%. This increase was due to strong revenue growth of 15.1% offset by expense growth of 16.8%. Improvements in productivity were offset by investments for future growth such as the development of alternate delivery channels.

Our internal target is to improve productivity by 2% per annum. In 1997, the primary reason for the increase in the productivity ratio was our strategic development and expenditures as outlined below.

Total Bank Productivity *(%)*

Expense Growth *(%)*



Expense Growth Driven by Revenue-Generating Activities and Investment for Future Growth

As a secondary measure of productivity, we analyze year-over-year expense growth, which was 16.8% in 1997, versus 8.3% in 1996. Expenses increased by $664 million in 1997. The primary driver of the increase was revenue-driven expenses, largely variable compensation, which amounted to $210 million of the increase. Strategic development spending, which is highlighted below, contributed an incremental $192 million to expense growth. Another item contributing to expense growth was a $75 million charge that we realized in the fourth quarter, representing accelerated depreciation related to technology changes and costs associated with improving the efficiency of our credit process. Other expenses contributed 5.3%, representing costs related to inflation and volume growth, reduced by the benefits from productivity initiatives.

Contribution to Expense Growth *(%)*

For the year ended October 31	**1997**	1996
Revenue driven expenses	**5.3**	5.2
Strategic development spending	**4.9**	2.3
Charge and non-recurring items	**1.3**	(1.0)
Other	**5.3**	1.8
Total expense growth	**16.8**	8.3

Note: For more information see Table 8 on page 57.

Total expenses in 1996 increased 8.3% over 1995. Variable compensation contributed $190 million or 5.2%, and strategic development spending contributed $84 million or 2.3%. The 1996 results include a non-recurring $23 million charge resulting from legislation to assess premiums on deposits insured by the Savings Association Insurance Fund (SAIF). This charge related to Harris Bank's acquisition of Household and contributed 0.7% to overall expense growth.

Strategic development spending increased by $192 million in 1997 and was comprised of strategic initiatives to generate future revenue growth and productivity-related initiatives to realize efficiency opportunities.

Strategic Initiatives	Description
mbanx	Development of virtual reality banking
Telephone Banking	Development of new delivery channel
Cebra	Development of integrated digital commerce products
Pathways Financial Growth Centres	Development of educational delivery channel
Wealth Management	Development and coordination of personal and commercial wealth creation products and services

Productivity Initiatives	Description
Symcor	Co-sourcing of document processing
Strategic Sourcing	Negotiated contracts with suppliers
PCFS Transformation	Realignment of resources

To summarize expense growth in traditional non-interest expense categories, salaries and employee benefits grew by 14.7% in 1997 due largely to higher variable compensation as well as staffing increases as a result of business expansion activities. Premises and equipment increases reflect the addition of the 54 new Household branches in Harris Regional Banking. Communications expenses increased as a result of increased volumes of point-of-sale transactions and investments in technology. The increase in other expenses largely reflects third-party payments as a result of the managed futures product.

Non-Interest Expense *(year-over-year % increase)*

For the year ended October 31	**1997**	1996	1995	1994	1993
Salary and employee benefits	**14.7**	10.6	11.3	7.9	7.4
Premises and equipment	**26.0**	6.9	13.3	3.4	4.4
Communications	**12.4**	5.6	15.5	9.1	(1.1)
Other expenses	**15.6**	4.4	17.3	27.7	2.7
Total non-interest expense	**16.8**	8.3	13.1	10.5	5.5

Note: For more information see Table 8 on page 57.

In 1996, the increase in salary and employee benefits was directly related to revenue generation in Investment and Corporate Banking. Premises and equipment increase of 6.9% was due to our commitment to providing customers with cost-effective channels of banking, such as automated banking machines, telebanking, and point-of-sale terminals. Communications expenses increase of 5.6% was due to the increase in volume of alternate channel transactions. Other expenses, which increased 4.4% relative to 1995, reflected investment spending including costs related to Symcor, as well as mbanx research, advertising and promotion costs.

Operating Group Review

Strategy:
To allocate capital resources and to make strategic investments on a line-of-business basis with a view to improving shareholder value.

Approach:
Our approach to making strategic investments is based on the performance of the various lines of business relative to our economic performance threshold.

Our Diversification Strategy Results in Strong Growth in Investment and Corporate Banking and Global Treasury Group

In 1997 we made a number of organizational changes related to the creation of Electronic Financial Services and the Global Treasury Group which included transferring some lines of business from other groups. As a result, the contents of the remaining groups are not the same as they were in 1996. The businesses that comprise each group are described at the beginning of each operating group section over the next several pages. All financial information has been restated to be consistent with the five operating groups as shown in the table below.

Net income increased across most operating groups and in most geographic areas in 1997 as shown by the table below. Investment and Corporate Banking produced the highest income growth at 33.9%, driven by strong capital markets in the low interest rate environment. Global Treasury's net income increased $85 million as a result of new business and product development as well as cash collections due to the improved North American economy. Harris Regional Banking's net income growth was 21.4% largely driven by volume growth offset by expense growth. Personal and Commercial Financial Services net income declined 1.4%, resulting from strong business volume growth and good cost control outweighed by a decline in net interest margin. Electronic Financial Services income declined by $15 million due to business growth which was more than offset by strategic investment spending on mbanx. The operating groups and their respective performance are discussed in more detail over the next several pages.

Retail and Commercial Segment Contributes 74.2% of Net Income

While we manage the Bank relative to the operating groups as outlined below, it is also useful for us to review our performance relative to the major customer or client segments we serve. We have defined the retail and commercial segment to include those areas of the Bank which serve our retail and commercial clients namely: Personal and Commercial Financial Services, Electronic Financial Services, Harris Regional Banking, and the Private Client Division and Asset Management Services within Investment and Corporate Banking. The institutional segment is comprised of Global Treasury and the remainder of Investment and Corporate Banking.

Net Income *($ millions)*

For the year ended October 31	**1997**	**% mix**	1996	% mix	1995	% mix
Retail	**968**	**74.2**	951	81.4	829	84.0
Institutional	**491**	**37.7**	375	32.1	319	32.4
Support *(b)*	**(154)**	**(11.9)**	(158)	(13.5)	(162)	(16.4)
Total Bank	**1,305**	**100.0**	1,168	100.0	986	100.0

Net Income and Average Assets by Operating Group *($ millions)*

	Personal and Commercial Financial Services		Global Treasury Group		Electronic Financial Services		Harris Regional Banking *(a)*		Investment and Corporate Banking		Support *(b)*		Total Consolidated	
For the year ended October 31	**1997**	1996*	**1997**	1996*	**1997**	1996*	**1997**	1996*	**1997**	1996*	**1997**	1996*	**1997**	1996*
Net Income														
Canada	**539**	547	**102**	100	**35**	63	**0**	0	**159**	104	**(292)**	(195)	**543**	619
United States	**0**	0	**201**	146	**50**	65	**186**	153	**(6)**	8	**104**	18	**535**	390
Mexico	**0**	0	**6**	7	**78**	50	**0**	0	**0**	0	**0**	0	**84**	57
Other countries	**0**	0	**94**	65	**18**	18	**0**	0	**(3)**	0	**34**	19	**143**	102
Total	**539**	547	**403**	318	**181**	196	**186**	153	**150**	112	**(154)**	(158)	**1,305**	1,168
Average Assets														
Canada	**58,711**	55,253	**27,197**	12,973	**4,532**	3,723	**0**	0	**21,885**	16,207	**(2,888)**	1,407	**109,437**	89,563
United States	**0**	0	**21,759**	17,961	**2,443**	1,837	**25,866**	23,042	**13,652**	9,673	**733**	708	**64,453**	53,221
Mexico	**0**	0	**132**	367	**1,285**	1,060	**0**	0	**0**	0	**0**	0	**1,417**	1,427
Other countries	**0**	0	**20,115**	13,468	**814**	617	**0**	0	**477**	1	**8**	19	**21,414**	14,105
Total	**58,711**	55,253	**69,203**	44,769	**9,074**	7,237	**25,866**	23,042	**36,014**	25,881	**(2,147)**	2,134	**196,721**	158,316

**Restated to give effect to the current year's organization structure.*

(a) Harris in Canadian dollars based on Canadian GAAP including Harris Bankcorp, Inc., Harris Bankmont, Inc. (formerly Suburban Bancorp, Inc.), and the branches purchased from Household Bank in 1996 and represents Harris Regional Banking which excludes card services, operating services and HBIC, now included in Electronic Financial Services.

(b) Support includes any residual revenues and expenses representing the difference between actual amounts incurred and the amounts allocated to operating groups.

Basis of presentation of results of operating groups:
Expenses are matched against the revenues to which they relate. Indirect expenses, such as overhead expenses and any revenue that may be associated thereto, are allocated to the operating groups using appropriate allocation formulas applied on a consistent basis. For each currency, funds are transferred from any group with a surplus to any group with a shortfall at market rates for the currency and appropriate term. Segmentation of assets by geographic region is based upon the ultimate risk of the underlying assets. Segmentation of net income is based upon the geographic location of the unit responsible for managing the related assets, liabilities, revenues and expenses.

Personal and Commercial Financial Services

Benefits of Strong Asset Growth and Cost Control Offset by Narrowing Margins in Low Interest Rate Environment

Group Description

The Personal and Commercial Financial Services group (PCFS) provides financial services to roughly six million households and commercial businesses across Canada, and represented 41% of our 1997 net income and 30% of our total average assets.

Business Environment

PCFS faced several challenges in 1997 that will carry through to 1998. The retail banking industry is undergoing a transformation that reflects a new technological age, competing financial choices and new customer preferences. Through this transition, PCFS has had to balance the costs of infrastructure and multiple priorities for investments with the need to competitively satisfy customer needs. PCFS is striving to build a world-class understanding of customers, their values and needs, while continuing to build distinctive workforce competence through this period of unprecedented change. PCFS' key business strategies position them well to meet these challenges. The focus of these strategies will ultimately enable PCFS to integrate products, channels and prices in a way that is compelling to customers.

Key Business Strategies:
- distribution network transformation
- relationship building
- distinctive workforce competence
- knowledge management

Accomplishments in 1997

Transforming Distribution Network

- **Commenced a reconfiguration** of branches and automated banking machines (ABMs): merged 55 conventional branches; expanded the functionality of ABMs; and developed Pathways Financial Growth Centre, a unique banking store where customers and non-customers alike can explore and implement solutions to their financial services needs in an interactive, friendly environment. This initiative will accelerate through the year 2000 as we develop a network that is simultaneously more cost-effective and market-responsive.
- **Introduced several Internet customer options:** mortgage applications with instant approval, student loan and MasterCard® applications, and PC and net banking to perform everyday banking transactions.
- **Completed a substantial restructuring** of the Everyday Banking program which:
  - provides customers with a cost-effective array of everyday banking plans that facilitate simplified channel choices such as telephone and net banking and basis of payment for everyday banking services; and
  - establishes all-in-one package of borrowing, investment and transaction services for the small office/home office (SOHO) market, called the FirstBank Plan for small business.

Relationship Building

- **Established a streamlined organizational structure** providing distinct areas of responsibility and competency in sales and service. The new structure has enabled PCFS to enhance its focus on identifying and satisfying customer needs.
- **Demonstrated leadership in non-traditional financing** through the Bank of Montreal Capital Corporation's expanded presence and growing reputation, as one of the leaders in providing equity and quasi-equity financing for small- to medium-sized Canadian businesses.

Distinctive Workforce Competence

- **Expanded the capability of the workforce** in meeting customer needs through a series of diverse initiatives which include: recruiting Trust & Investment Services Managers, establishing a Bank of Montreal MBA program at Dalhousie University for a select group of high potential future leaders, and enhancing the skill set of Financial Services Managers through various training programs.

Knowledge Management

- **Enhanced Data Base Marketing** competencies through the development and application of technology-based tools and their integration into the PCFS marketing process. This has resulted in improved decision-making to support customer retention, product development and focused, high-quality service.

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Financial Results

Business volume growth and strong expense control partly offset by lower margins resulted in income in 1997 of $539 million. Revenue growth was 2.9% and is attributed to strong loan volume growth of 8.9% as well as increases in fees and other commissions, partly offset by narrower margins. The decline in margins is primarily due to two factors. First, due to the declining interest rate environment, PCFS experienced rate compression as a result of price floors. Second, PCFS experienced a higher rate of growth in their lower-earning assets, namely mortgages, than other asset categories. Expense growth of 3.5% reflects several key investment and capacity creation initiatives such as branch rationalization, organizational streamlining, workflow innovation, automation of commercial and personal lending decisions, and migration of transactions to automated channels. These initiatives, in addition to focused investment spending, have enabled PCFS to reduce resources dedicated to Community Banking at year end by 7.2% to 13,278 FTE while concurrently increasing market share in key lines of business. Specific provisions for loan losses were $104 million, up 34.2% from last year; however, the loan loss provisioning ratio of 0.19% remains well below industry norms and is reflective of the continued strong growth in low-risk residential mortgages and prudent lending policies.

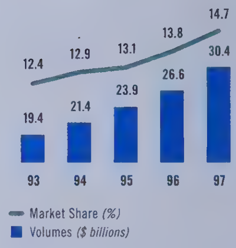
In 1996, net income increased 3.2%, driven by business volume growth and strong expense control. Revenue growth of 0.8% in 1996 was the result of an increase in average loans of 6.6%, partly offset by lower margins. Expenses declined in 1996 by 1.9% as a result of effective cost management in addition to a $30 million accrual made in 1995 for business process improvements.

Personal and Commercial Financial Services *($ millions except as noted)*

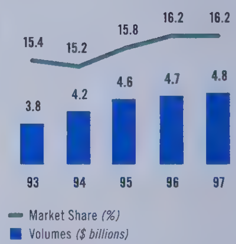
As at or for the year ended October 31	**1997**	1996*	1995*	1994*	1993*
Net interest income	**2,119**	2,079	2,078	2,010	1,792
Other income	**483**	450	431	408	401
Provision for credit losses	**104**	77	52	78	103
Non-interest expense	**1,552**	1,499	1,528	1,482	1,384
Income before taxes	**946**	953	929	858	706
Income taxes	**407**	406	399	377	304
Net income	**539**	547	530	481	402
Average assets	**58,711**	55,253	52,259	48,786	47,233
Average current loans	**54,720**	50,266	47,134	42,953	40,724
Average deposits	**56,425**	52,539	50,711	47,882	46,484
Full-time equivalent staff *(a)*	**13,278**	14,303	NA	NA	NA
Expense-to-revenue ratio *(%)*	**59.7**	59.3	60.9	61.3	63.1

**Restated to give effect to the current year's organization structure.*
(a) As at October 31.
NA – Not available.

Residential Mortgages

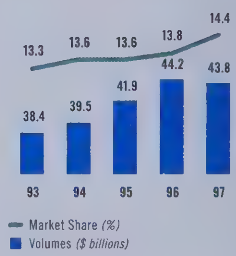


Small- and Medium-Sized Businesses*



**Excludes agriculture and mortgage loans. 1997 market share as at April 30. 1993–96 market share as at September 30.*

Total Personal Deposits



Global Treasury Group

Record Earnings Driven by Diversification Strategy

Group Description

Created in 1997, the Global Treasury Group (GTG) serves the large and growing segments of corporate and institutional clients in North America and globally by offering financing and treasury solutions, as well as relationship management for the Non-Bank Financial Institutions and Governments and International Financial Institutions segments. In 1997, GTG contributed 31% of our total net income and accounted for 35% of our total average assets.

Business Environment

There are a number of significant environmental factors which are relevant to the corporate and institutional markets we serve. First, from a global perspective, global flows of capital and investment have become substantial, providing significant opportunities for financial intermediaries who can provide creative services for both investors and borrowers. Second, the growing complexity of markets and risks has transformed risk management into a complex science, and opportunities exist to exploit expertise in this area, both internally and as an element of financial solutions offered to corporations and institutions. Finally, clients are increasingly looking for complete solutions to their requirements. The growing complexity of markets is creating client demand for both education and customized solutions, and top tier providers will need to exceed client expectations in this area. GTG has focused on these factors, among others, to shape their business strategies, several of which have been defined below.

Key Business Strategies:
- provide clients with relevant, creative solutions
- continued development of our derivatives competencies
- provide financial services for our clients doing business in and/or from the Asia region
- leverage specialized project finance knowledge
- effective risk management to ensure appropriate risk-return relationship

Accomplishments in 1997

Provide Clients with Relevant, Creative Solutions

- **Jointly, GTG and the Investment Bank firmly established themselves as the Canadian market leader in the Managed Futures** product line through the issuance of securities sold to institutional and individual investors.
- **Completed the largest collateralized bond obligation** (CBO). This innovative US$1.04 billion vehicle combines the Bank's expertise in managing credit risk portfolios with Nesbitt Burns expertise in raising public funding.
- **Established Bank of Montreal Ireland** (BMI) as a fully licensed bank to source and build foreign currency assets. The three main lines of business are treasury, loans/investments and managed futures.
- **Launched an International Money Market team** into Barbados which began trading in the fourth quarter of 1997.

Continued Development of Our Derivatives Competencies

- **Developed core competency in derivatives** by enhancing professional skills, developing systems infrastructure and improving product delivery capabilities.
- **Launched commodity derivatives business to complement our organizational strengths in natural resources.** The group will service client needs for oil and gas derivative products.
- **Established London Global Financial Products Group** extending core capabilities into the G10 currencies plus Australia, Spain and ECU currencies.

Provide Financial Services for Our Clients Doing Business in and/or from the Asia Region

- **In September 1997, we became the first Canadian bank to open a full-service commercial branch** in Beijing, and the only Canadian bank with two branches in China. Guangzhou branch was opened in 1995.

Leverage Specialized Project Finance Knowledge

- **The recently formed Global Project Finance team has successfully won several lead/underwriting mandates** and participations in North America, Asia, Latin America/Mexico and Europe.

Global Treasury Group Continued

Effective Risk Management to Ensure an Appropriate Risk-Return Relationship

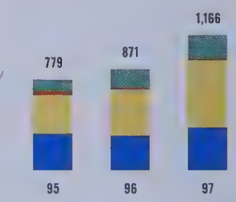
- **Co-sponsored CreditMetrics,** a credit risk management initiative designed to create further liquidity in the global loan markets. Our leadership in credit risk management lead to our co-sponsorship of this initiative.
- **Enhanced our focus on position risk and credit risk measurement and control methodologies.** We are in the process of implementing "Value at Risk" scenario analysis and stress testing methodologies to further improve our day-to-day risk management capabilities and to meet regulatory capital requirements for position risk.
- **These methodologies identify the economic contribution generated against the capital required to underpin all risks involved.** This allows us to measure performance on a uniform basis.

Financial Results

Net income for GTG was $403 million in 1997, up from $318 million in 1996. GTG's performance in 1997 reflects the belief that success is not defined solely by traditional products, nor by Canadian boundaries. Revenue growth of 33.8% was driven by several factors including the implementation of strategic initiatives such as Global Distribution, Project Finance, Derivatives and Managed Futures. GTG has also experienced significant revenue growth from cash collections ($79 million) due to the improved North American economy. Earnings from equities and bonds of lesser developed countries increased $48 million over 1996. Trading revenue contributed an incremental $29 million to revenue.

Income growth in 1996 was driven by higher trading revenues. Revenue increased $92 million or 11.8% over 1995 while expense growth was 9.8%.

Revenue Diversification
($ millions)



Global Treasury Group *($ millions except as noted)*

As at or for the year ended October 31	**1997**	1996*	1995*	1994*	1993*
Net interest income	**747**	533	514	530	578
Other income	**419**	338	265	244	232
Provision for credit losses	**3**	(22)	(22)	277	445
Non-interest expense	**465**	339	308	259	262
Income before taxes	**698**	554	493	238	103
Income taxes	**295**	236	211	105	46
Net income	**403**	318	282	133	57
Average assets	**69,203**	44,769	40,506	32,504	29,237
Average current loans	**18,071**	12,965	11,855	10,733	10,643
Average deposits	**49,111**	37,265	33,689	26,632	23,655
Assets under management	**1,417**	0	0	0	0
Full-time equivalent staff *(a)*	**692**	725	NA	NA	NA
Expense-to-revenue ratio *(%)*	**39.9**	38.9	39.6	33.4	32.3

**Restated to give effect to the current year's organization structure.*
(a) As at October 31.
NA – Not available.

Electronic Financial Services

Strategic Investing for the Modern Banking Environment

Group Description

Electronic Financial Services (EFS), a new operating group in 1997, is made up of diverse North American businesses which share a mandate to develop new technologies and channels of distribution and leverage information to provide exceptional client service. Lines of business within EFS are mbanx, telephone banking, credit cards, smart cards and corporate electronic financial services, cash management, trade finance, payments, institutional trust and custody, and Cebra Inc. The Bancomer alliance is also managed by EFS. In 1997, EFS contributed approximately 14% of our total net income and 5% of our total average assets.

Business Environment

Clients demand quality experiences characterized by speed, convenience, individual tailoring of services and multiple channels of access. To be successful in this environment financial institutions must make good use of leading-edge technologies. They must be innovative in using information to anticipate and satisfy client needs. The primary challenge facing EFS is the need to invest in new virtual banking opportunities while developing established businesses. To share the costs of future technology investments and to attain the scope and scale necessary to compete in some lines of business, EFS must continue to develop strategic alliances. Strengthening our North American scope will provide an appropriate arena for future growth. The business strategies shown below will help EFS meet the challenges of this business environment.

Key Business Strategies:
- deliver exceptional client experiences in virtual banking
- enhance product offerings
- form strategic alliances
- strengthen North American scope

Accomplishments in 1997

Delivered Exceptional Client Experiences in Virtual Banking

- **mbanx is on track to achieve its goal of 100,000 clients by December 31, 1997.** mbanx was launched in October 1996 as a virtual bank to serve time-pressed, financially active clients. It has established itself as an industry leader with innovations such as rewarding its clients for their patronage, providing on-line mortgage applications, integrating on-line banking with a special edition of Quicken™ (personal finance software), and delivering services through Bell Vista™ 350 telephones. mbanx is the first bank in Canada to provide financial services over the Internet. In addition to its own clients, mbanx supports the provision of Internet financial services to clients of Personal and Commercial Financial Services.
- **Launched mbanx in the United States** as a PC banking capability to serve clients in the Chicago area. mbanx U.S. has the mandate to develop electronic delivery channels for clients of Harris as well as to develop its own client base.
- **Expanded telebanking services in Canada and the United States.** The number of calls handled increased 78%, sales volumes increased 85% and over 400 new employees were hired during 1997. Innovations in 1997 included the launch of new desktop systems to help agents better service clients, new technology to improve automated call handling, and the launch of PC banking services.
- **Established Cebra Inc. as a leading provider of digital commerce solutions** for business needs. Launched in 1996, Cebra has initiated an impressive array of solutions that apply to a variety of industries. The major introduction in 1997 was MERX™, an electronic tendering service for government purchasing agencies and their suppliers.

Enhanced Product Offerings

- **Introduced Tradevenue®** in Canada and the United States. Tradevenue is an innovative Windows®-based letter of credit processing and management system that enables companies to prepare and dispatch letters of credit within 24 hours from their own desktop computers.
- **Implemented imaging technology** to improve the speed and convenience and reduce the cost of documents processing within our North American cash management businesses. This technology has created new marketing opportunities and has helped us to become a leader in providing collection and payment services to Canadian corporations. Imaging technology has also been implemented for our U.S. clients and it has been well accepted.
- **Started processing MasterCard applications and approvals on-line,** becoming the first financial institution in the world to offer this service on the Internet.
- **Rapidly expanded the Corporate MasterCard program in Canada.** The program now has over 3,600 member organizations and over 25,000 accounts.

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® Tradevenue is a registered trade mark of Bank of Montreal.
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Electronic Financial Services Continued

Formed Strategic Alliances

- **Established a new credit card company,** Partners First™, through a joint venture with BankBoston of Boston, Massachusetts and First Annapolis of Baltimore, Maryland. We own 69% of the new company and it will have over one million customers and over US$2 billion in credit card receivables at inception. Sophisticated information management techniques and innovative marketing will position the new credit cards uniquely in the United States. Outsourcing the processing activities will improve the cost structure. Partners First aims to be a top 15 credit card company within the next few years.
- **Joined the Mondex Canada** consortium that enables us to offer our customers the pre-eminent electronic cash system in Canada, the smart card.
- **Continued to develop our alliance with Grupo Financiero Bancomer** of Mexico. Several major corporate finance transactions were negotiated in 1997 which increased our presence in the Mexican corporate market and enhanced Bancomer's relationship with key clients.

Strengthened North American Scope

- **Integrated the Canadian and U.S. Cash Management businesses** to permit better leveraging of these businesses. The integrated business is a major player in the North American cash management market and, together with our Bancomer alliance, offers clients the only true NAFTA capability and expertise.

Financial Results

1997 net income for EFS of $181 million declined by $15 million from 1996 primarily due to major investments in alternate banking channels. Revenue growth of 17.9% was driven by an incremental contribution from Bancomer ($32 million) and revenues from the credit card and corporate electronic financial services lines of business. Non-interest expenses increased 28.4% reflecting investments in technology and increases in personnel in mbanx and telephone banking. Credit card balances and mortgages contributed to the 25.4% increase in average assets. Provision for loan losses increased $41 million or 42.7% in 1997, reflecting growth in credit card balances and an increasing level of personal bankruptcies.

Net income for EFS in 1996 was $196 million, up $75 million or 61.9% from 1995, driven by our equity investment in Bancomer ($50 million), and revenue growth from cards and corporate electronic financial services. Non-interest expense increased 2.5% from 1995 to 1996, reflecting investment in telephone banking technology.

BMO Market Share of Card Loans *(%)*

**Bank data as reported by Bank of Canada has been adjusted for credit card securitization.*

Volume of Telephone Banking Calls *(millions)*

Electronic Financial Services *($ millions except as noted)*

As at or for the year ended October 31	**1997**	1996*	1995*	1994*	1993*
Net interest income	**583**	503	384	335	309
Other income	**532**	443	413	401	400
Provision for credit losses	**137**	96	61	65	70
Non-interest expense	**707**	551	537	499	459
Income before taxes	**271**	299	199	172	180
Income taxes	**90**	103	78	73	75
Net income	**181**	196	121	99	105
Average assets	**9,074**	7,237	5,974	5,054	4,620
Average current loans	**6,291**	5,496	5,026	4,543	3,928
Average deposits	**6,668**	5,351	4,621	4,530	4,020
Assets under administration	**167,743**	149,287	130,012	120,748	98,000
Assets under management	**2,000**	0	0	0	0
Full-time equivalent staff *(a)*	**3,630**	2,212	NA	NA	NA
Expense-to-revenue ratio *(%)*	**63.4**	58.2	67.4	67.8	64.7

**Restated to give effect to the current year's organization structure.*
(a) As at October 31.
NA – Not available.

Harris Regional Banking

Achieved 21.4% Income Growth

Group Description

Harris Regional Banking (Harris) is one of the largest community bank networks in Illinois, a nationally recognized provider of personal trust and private banking services, and a major Midwest corporate bank. Harris contributed 14% of our total net income in 1997 and 13% of our total assets, while Harris Bank overall including Electronic Financial Services and Global Asset Management contributed 18% of total net income and 14% of total assets.

Business Environment

Harris' business environment is characterized by the dramatic structural change common to all U.S. financial services providers. The Midwest in particular presents an enormous opportunity (twice the size of Canadian GDP) and Chicagoland a unique prize (8 million people; approximately 40% of Canadian GDP). The Chicagoland market represents the most fragmented market in the United States, with the top five competitors accounting for approximately 40% of the market, roughly two-thirds the Midwest average. Yet the market remains vastly underserved, with a ratio of branches per person among the lowest in the Western world. To continue to build a strong community, private and corporate franchise, Harris has focused on the key business strategies below.

Key Business Strategies:
- expand retail and private banking
- expand corporate banking and trust businesses
- reduce fixed cost structure

Accomplishments in 1997

Expanded Retail and Private Banking

- **Added 45,000 customers** in 1997 — well on-track to triple the customer base to one million by 2002.
- **Now penetrating one out of five** households in Chicagoland compared to one out of 14 in 1993.
- **Crossed the $1 billion mark** in home equity loans, up 30% in 1997.
- **Reached record mortgage origination levels** of $125 million per month.
- **Deposit growth** of 10% in 1997, excluding the effect of the Household acquisition.
- **Record growth** in private banking business.

Expanded Corporate Banking and Trust Businesses

- **Harris is among the top four corporate banks** in the Midwest and growing rapidly — with approximately 25% market penetration and #2 market position in Chicagoland and Illinois; a top out-of-state bank position in many major metropolitan markets across the Midwest; and a top position nation-wide in such specialty areas as food processing and distribution.
- **Doubled loan syndication fees** in 1997.
- **Working with our Electronic Financial Services organization,** cash management revenues grew at a double-digit rate — twice the national average — and the cross-sell ratio among the Harris corporate customer base rose to above 50%.
- **Excluding portfolio acquisitions, grew Corporate Trust revenue** by 12%.

Reduced Fixed Cost Structure

- **Reduced overhead costs** by US$60 million and reduced infrastructure positions by 600 over three years.
- **Integrated 54 Household locations** into Harris' existing retail network.

Harris Regional Banking Continued

Financial Results *(all dollar amounts are in Canadian dollars)*

Net income for Harris was $186 million in 1997, up from $153 million in 1996, an increase of 21.4%. Income growth was driven by revenue growth that was up 11.6% from $938 million in 1996. This increase in revenue was due to the acquisition of Household Bank in June 1996 and a strong increase in loan and deposit volumes, slightly offset by a decline in net interest margin. Average assets increased 12.3% in 1997 versus 12.5% in 1996. Net interest income growth was 13.0% due to an increase in business volumes and the purchase of Household. Average asset growth was $2,824 million in 1997, reflecting business volume growth across all asset categories and the purchase of Household. Non-interest revenue increased $28 million in 1997 from $314 million in 1996. The increase reflects higher service charges and trust income and the sale of the securities custody business in 1996. Non-interest expense growth in 1997 was 12.3%, caused primarily by the costs of acquiring, operating and integrating 54 Household locations into Harris' retail network and volume growth across all lines of business.

Net income in 1996 was down $5 million from $158 million in 1995. The 1996 results included a one-time $14 million after-tax charge resulting from legislation to assess premiums on deposits insured by the Savings Association Insurance Fund. This assessment resulted from the June 1996 purchase of Household Bank's retail banking business.

Average Current Loans
($ millions)

Harris Regional Banking *($ millions except as noted)*

As at or for the year ended October 31	**1997**	1996*	1995*	1994*	1993*
Net interest income	**705**	624	570	444	449
Other income	**342**	314	349	332	311
Provision for credit losses	**13**	28	36	35	49
Non-interest expense	**731**	650	623	624	538
Income before taxes	**303**	260	260	117	173
Income taxes	**117**	107	102	34	55
Net income	**186**	153	158	83	118
Average assets	**25,866**	23,042	20,486	16,936	15,267
Average current loans	**15,070**	12,710	10,980	8,879	7,938
Average commercial loans	**10,787**	9,669	8,583	7,320	6,308
Average deposits	**17,924**	16,486	14,759	12,243	11,259
Assets under administration *(a)*	**89,424**	71,804	247,160	197,306	194,555
Assets under management	**32,936**	24,381	39,221	19,222	22,600
Full-time equivalent staff *(b)*	**6,262**	6,023	NA	NA	NA
Expense-to-revenue ratio *(%)*	**69.8**	69.3	67.8	80.4	70.9

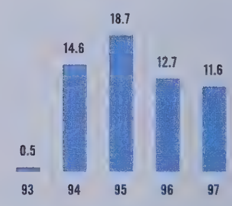
**Restated to give effect to the current year's organization structure.*

(a) The decrease in assets under administration at October 31, 1996 reflects the sale of Harris' securities custody and related trustee services business for large institutions in January 1996.

(b) As at October 31.

NA – Not available.

Commercial Loan Growth *(%)*



Investment and Corporate Banking

Achieved Record Earnings Driven by Strong Capital Markets

Group Description

The Investment and Corporate Banking division (I&CB) includes the Nesbitt Burns group of companies (NB), the Asset Management Services group, the Merchant Bank and North American Corporate Banking. Nesbitt Burns is one of Canada's pre-eminent investment banks and is responsible for our investment banking activities in Canada, the United States and other major financial markets. NB offers full-service brokerage and financial advisory services to its corporate, government, institutional and private clients. Asset Management Services offers a full range of mutual funds, discount brokerage service (InvestorLine), trust products and investment management services to private and institutional clients in North America. The Merchant Bank is a private equity investment business with other ancillary services. North American Corporate Banking provides financing solutions to a broad range of corporate clients. In 1997, I&CB contributed 11% of our total net income and represented 18% of our average assets.

Business Environment

Given the intense competition for top-quality professionals in each line of business, the success of I&CB will be dependent on the effectiveness of its hiring and retention strategies. Development of professionals in all product areas is key to success in both Canada and the United States over the next few years. I&CB's competitive advantage will rely on a continued commitment to a culture which fosters integrity, professionalism and in-depth product knowledge and expertise. As we expand beyond Canada, a second challenge is to deliver seamless cross-border products and services to clients in Canada, the United States and selected international markets.

Key Business Strategies:
- solidify investment banking market share in Canada
- expand international investment banking operations
- develop asset management

Accomplishments in 1997

Solidified Investment Banking Market Share Positions

- **Maintained Nesbitt Burns leading market share position in Canada.**
  - NB had #1 market share position in Canada for volume and dollar value of block shares traded at 11.36% and 12.70% respectively.
  - NB is ranked #1 for research; its *Red Book* was cited as the most widely read research publication. The *Red Book* is published quarterly by the Equity Research Department and is targeted to institutional and private clients.
  - NB has a leading share of Canadian equity underwriting in the domestic market with 15% of the market.
  - In the annual Brendan Wood survey for calendar 1996, NB was ranked #1 in equity derivatives and interlisted stocks.

Expanded International Investment Banking Operations

- **Increased investment banking revenues from the United States** by 41% reflecting successful focus on increasing activities in Chicago and New York.
- **Hired** five Investment Banking professionals.

Developed Asset Management

- **Developed Bank of Montreal Global Asset Management** to centralize and leverage the expertise of various asset management entities and products within the Bank. The asset management entities include The Trust Company of Bank of Montreal, Jones Heward, Harris Investment Management, Harris Personal Trust and Investment, InvestorLine, and Harris Investors Direct, Inc.
- **Launched six new First Canadian® and two Nesbitt Burns mutual funds** to build brand equity and assets under management.
- **Performance of the core North American funds** managed by Jones Heward and Harris Investment Management remains strong.
- **Increased assets under management** by 55.9%.
- **Established Investore™** sales and information centres that offer interactive kiosks for providing information on mutual funds and other asset management services.

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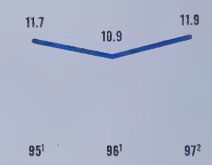
Investment and Corporate Banking Continued

Financial Results

In 1997, net income for I&CB grew 33.9% to $150 million, driven primarily by revenue growth. The increase in revenue growth resulted from the success of the key growth strategies and the impact of the buoyant capital markets, in particular, more new equity issues and increased secondary trading volumes. Non-interest expense increased 25.0%, which largely reflects revenue-driven compensation.

Income growth in 1996 of $55 million was largely due to the impact of stronger capital markets and in particular, new equity issues and increased secondary trading volumes. Expense growth primarily reflected higher revenue-related compensation.

Leading Institutional Equity Market Share *(%)*



As measured by block trading volume on the Montreal Exchange and Toronto Stock Exchange.
[1] Data quarter ending December 31
[2] Data quarter ending September 30
Source: Montreal Exchange and Toronto Stock Exchange

Investment and Corporate Banking *($ millions except as noted)*

As at or for the year ended October 31	**1997**	1996*	1995*	1994*	1993*
Net interest income	**100**	52	55	46	37
Other income	**1,175**	962	644	470	323
Provision for credit losses	**0**	0	0	6	8
Non-interest expense	**1,003**	803	587	384	268
Income before taxes	**272**	211	112	126	84
Income taxes	**122**	99	55	55	30
Net income	**150**	112	57	71	54
Average assets	**36,014**	25,881	22,075	15,538	13,898
Average current loans	**19,405**	12,594	10,882	8,271	8,516
Securities purchased under resale agreements	**18,044**	11,431	9,894	7,842	8,136
Average deposits	**1,916**	1,447	1,009	673	454
Assets under administration	**41,919**	34,176	26,289	22,005	11,800
Assets under management	**16,516**	10,597	8,488	8,987	8,100
Full-time equivalent staff *(a)*	**4,555**	4,093	NA	NA	NA
Expense-to-revenue ratio	**78.7**	79.2	83.9	74.4	74.4

**Restated to give effect to the current year's organization structure.*
(a) As at October 31.
NA – Not available.

Underwriting Market Share *(%)*

Estimated dollar value of underwriting participation as a % of total capital raised for the 12 months ended September 30.

Wealth Management

Given demographic factors and the growth opportunities presented across our chosen markets, and the increasing cross-border alignment and synergies between businesses within the Bank, the wealth management business is a key priority for future investment and development through 1998 and beyond. Our wealth management business has a broad reach across several entities within the Bank of Montreal Group of Companies which, taken together, offer a significant product range and scope of distribution.

Our wealth management is best described by addressing three business segments:

- retail money management through mutual funds and other packaged products;
- high net worth personal client money management; and
- institutional money management.

Retail money management encompasses a combination of no-load and load mutual funds distributed through proprietary channels. Our mutual fund families include: First Canadian Funds, Harris Insight Funds, Jones Heward funds and Nesbitt Burns mutual funds. Matchmaker®, a strategic asset allocation service launched in 1997, has been very successful in Canada.

High net worth clients are delivered wealth management products and services on a bundled and unbundled basis, through a combination of discretionary and non-discretionary products and services. Nesbitt Burns has more than 1,350 investment advisors who provide full-service investment advice from some 125 offices across Canada. As well as traditional investment products, Nesbitt Burns offers a wide range of proprietary products, including management account programs and Nesbitt Burns Pathfinder®, a comprehensive investment and retirement planning program. In addition, we offer investment products and services through Harris Trust in the United States, and through Bank of Montreal Private Client Services, Jones Heward, The Trust Company of Bank of Montreal and InvestorLine®, a discount brokerage subsidiary, in Canada. Canadian distribution points have expanded, while U.S. distribution, currently focused in the Midwest, is in the process of expanding to Arizona, Florida and California.

Institutional money management is conducted through Jones Heward Investment Counsel and Harris Investment Management Company.

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® Pathfinder is a registered trade mark of Nesbitt Burns.

Risk Management Overview

As a financial steward we must understand and actively manage the risks associated with business transactions and the general environment in which we operate. This process is termed risk management. The effects of risk are considered in terms of their impact on income, asset values and liabilities. Ultimately, all forms of risk reflect uncertainty regarding potential outcomes from financial transactions due to changes in political, economic and market conditions. Among the risks we actively manage, the four principal groups are: credit risk, position risk, liquidity risk and operational risk. The Risk Spectrum diagram on the next page defines each of these principal risks, and the following sections describe how we manage and measure these risks.

Our objective is to earn competitive returns from our business activities, at an acceptable level of risk. To accomplish this objective, we rely on the high degree of competence and dedication of our professional staff, sophisticated, quantitatively based analytical tools and ongoing investment in technology. The combination of advanced analytic skills, and prudence has been reflected in the strength and quality of our earnings.

Strategy

The goal of our risk management strategy is to identify, price and manage risk to ensure an appropriate risk-return relationship. We are committed to manage all forms of risk within and across each of our major lines of business, domestically and internationally, on- and off-balance sheet.

Our risk management strategies are as follows:

- to promote a strong and proactive culture that accords high value to disciplined and effective risk management;
- to communicate clear and concise risk management standards through policies, directives, operating procedures and training;
- to employ professional and dedicated personnel with a high degree of risk management expertise and experience;
- to adhere to stringent risk management techniques verified by an internal, objective audit process for the evaluation and acceptance of risk for individual transactions, products and portfolio-specific risks as well as the overall risk profile; and
- to utilize leading-edge analytical tools and technologies to properly capture and price risk, monitor positions and determine the potential impact of management initiatives and strategies.

Process Overview

Senior management proposes policies, strategies and risk limits to address both existing and newly identified risks pertaining to their respective marketplace. Position risk limits are reviewed at least annually. Their recommendations are reviewed and concurred with by Risk Management Policy and then are formally presented to the Risk Management Committee for review, with subsequent approval by the President and Chief Operating Officer. Risk Management Policy also assesses our risk exposures, reviews the effectiveness of internal control and transactional processes in liaison with Corporate Audit, and coordinates and communicates policy on all risk management issues. The head of Risk Management Policy submits policy for final approval to the Risk Review Committee of the Board of Directors, which oversees all risk management processes and receives regular reports on risk activities. All corporate policies on risk issues require approval by the CEO and review by the Risk Review Committee. We regularly review all risk management policies and practices.

How Specific Risks are Managed

Credit risk management requires a high degree of personal accountability and the clear delegation of decision-making authority. Credit transactions for commercial loans are evaluated first by a skilled lender and then are subject to an objective review by independent credit officers. Management stresses prompt recognition of problem accounts and their transfer to a group of specialists skilled in managing such accounts. All problem accounts are subject to formal quarterly review. Our overall loan portfolio is managed to ensure broad diversification of credit risk and to limit concentrations of correlated risks (e.g. country exposures, industry risks, etc.). An internal independent audit group reviews the management processes to ensure that our line functions adhere to established credit policies.

Risk Management Continued

Position risk activities are largely managed within Global Treasury's Risk Management Group. It is our policy to identify, measure, monitor and control all market risk-taking activities including management of both our structural and trading position risks. In order to achieve this, we have established a Corporate Standard for Position Risk Tolerance to define the maximum potential exposures that are permissible for position risk activities. The Standard is defined in terms of both earnings at risk and mark-to-market risk and applies to all risk arising out of interest rate, foreign exchange, commodity and equity positions at the Bank and our subsidiaries. The Corporate Standard is reviewed annually by the Risk Management Committee and subsequently approved by the President and Chief Operating Officer.

Liquidity risk management is part of our overall risk management framework. We ensure sufficient funding to meet all short-term liquidity demands by establishing minimum liquid asset requirements and limits with regard to the reliance on short-term wholesale deposits. Liquidity risk is managed through proactive balance sheet management within the context of current market conditions.

Operational risk is managed by a system of internal controls that requires segregation of duties, appropriate recording of transaction processing, financial and managerial reporting, and insurance coverage. We emphasize ongoing training to constantly improve the skills of our workforce. In addition, we maintain contingency plans for systems failure or catastrophic events, including back-up systems, pre-testing and parallel implementation of new systems. Operational controls are subject to regular internal audit reviews.

The Risk Spectrum

Credit Risk
Credit risk is the risk that we will incur a loss due to the failure of a counterparty[†] or borrower to meet its contractual financial obligation. Credit risk arises from traditional lending activity, from settling payments between the Bank and its counterparties and from providing products that result in replacement risk. Replacement risk arises when a client's commitments to us are determined by reference to changing values of contractual obligations, for instance derivatives and other Treasury products. Replacement risk is subject to the same credit process used for other forms of credit exposures.

Liquidity Risk
Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise deposits at unreasonable prices or sell assets on a forced basis.

Operational Risk
Operational risk is the potential for loss (including the adverse impact on our reputation) as a result of a breakdown in communications, information or transaction processing or legal/compliance issues, due to systems or procedural failures, error, natural disasters or criminal activity.

Position Risk
Position risk is uncertainty as to the impact on future earnings or shareholders' equity arising from volatility in underlying market factors, including interest and foreign exchange rates, and equity and commodity prices.

Interest rate risk is the risk that net interest income and/or shareholders' equity will decrease because of an adverse movement in interest rates. Foreign exchange risk is the potential for losses resulting from adverse currency movements in relation to open foreign exchange positions. Commodity and equity risk is the potential for losses resulting from adverse movements in the commodity or equity markets.

†Defined in the Glossary on page 90

Risk Measurement

Credit Risk

The measurement of credit risk is defined in the Asset Quality section on page 45. The primary measures for credit risk include the provisioning ratio and gross impaired loans as a percentage of equity plus the allowance for credit losses. A secondary measure, the coverage ratio, indicates the adequacy of the allowance. Off-balance sheet credit risks are included in credit risk management processes and measurement.

Position Risk

We use a variety of techniques to monitor, manage and control interest rate, foreign exchange, commodity and equity risk including gap reporting, stress testing, simulation and sensitivity analysis. Our primary measures for controlling these risks are "earnings at risk" and "mark-to-market risk" sensitivity analysis. These risk measurements include the impact of changes in market rates on all our portfolios, including the impact of embedded options, minimum rates on deposits and trading positions. They do not take into account actions we could take to reduce risk or actions customers might take in response to changing rates.

Position Risk Sensitivity *(after tax in $ millions)*

As at October 31	**1997**		1996	
	Cdn$	**US$**	Cdn$	US$
Earnings at risk *(a)*	**(59.6)**	**(34.8)**	(70.7)	(14.6)
Mark-to-market risk *(a)*	**(250.9)**	**(83.2)**	(284.3)	(55.0)

(a) Earnings at risk and mark-to-market risk include Cdn$(20.5) and US$(17.9) in 1997 and Cdn$(20.7) and US$(13.9) in 1996 related to the trading portfolios.

"Earnings at risk" represents the 12-month impact on net income, and "mark-to-market risk" represents the change in value of our assets and liabilities from adverse changes in market rates over the period that would be required to eliminate open positions. Over 83% of earnings at risk and 95% of mark-to-market risk relates to changes in interest rates. The calculation assumes different holding periods for individual portfolios because the period of time needed to eliminate an open position is different for each of our portfolios. Additionally, adverse changes in rates are evaluated on an individual portfolio basis since we could be vulnerable to rising rates in one portfolio and falling rates in another portfolio. The risk calculation does not take into account the effects of correlation. Other key assumptions are consistent with the assumptions disclosed for the gap position in Table 7 on page 56 of the Annual Report.

Our model of earnings at risk and mark-to-market risk is based on a statistical analysis of historical data on an individual portfolio basis to calculate with 97.5% confidence the potential loss in earnings/change in value we might experience if an adverse change in market rates were to occur.

We are currently implementing a fully integrated risk management system across all business units including Nesbitt Burns and Harris Regional Banking based on Value at Risk (VAR) methodologies. VAR measures the potential change of the present value of future expected cash flows from each of our portfolios. VAR is the basis of calculation of position risk capital in accordance with BIS and OSFI requirements.

Derivatives

We use financial derivatives to manage position risk, for both trading and hedging purposes. We offer derivative products to customers for their own risk management and investment purposes. These contracts can either be exchange traded (such as futures and some types of options) or over-the-counter transactions including interest rate and cross-currency swaps, forward rate agreements (FRAs), caps and floors, as well as other types of options†.

The two primary risks arising from the use of derivative products are credit risk and position risk. These risks are described, managed and measured as stated earlier.

For regulatory purposes, we also calculate the credit risk equivalent for our interest rate and foreign exchange derivative contracts on a BIS basis. This includes the cost of replacing, at current market rates, all contracts which have positive fair value, plus the potential for future changes based on a formula using parameters prescribed by the Office of the Superintendent of Financial Institutions (OSFI). Our internal parameters are more conservative than those prescribed by OSFI. The credit risk equivalent as at October 31, 1997 was $8.0 billion as compared to $11.2 billion in 1996.

Additional disclosure with regard to derivatives is found in note 20 to the consolidated financial statements.

Liquidity Risk

The measurement of liquidity risk focuses primarily on the proportion of liquid assets to total assets. A discussion of our performance relative to this measure, as well as our approach to liquidity management, is located on page 50.

Operational Risk

The financial measure of operational risk is actual losses incurred. No material losses were incurred in 1997 or 1996. An indirect subsidiary of the Bank has been named as a defendant in legal actions which we describe on page 82 of the consolidated financial statements.

We are currently managing operational risk relating to the calendar change for the year 2000. The Operations Group has overall responsibility for converting systems to accommodate the calendar change. A plan to implement the required changes by the end of 1998 has been developed and is being implemented. A governance structure has been established which includes a Program Management Office and regular monitoring of progress by the Bank's Technology and Infrastructure Committee.

1997 Risk Management Highlights

- Our Interest Rate Risk Program was nominated for the ITX award sponsored by the Conference Board of Canada and *CIO Canada* magazine. The program was recognized for its value, partnership of business and technology, and innovation.
- We became the only Canadian co-sponsor of CreditMetrics, a credit risk management initiative designed to facilitate the creation of further liquidity in the world loan markets. We were invited to be a co-sponsor because of our leadership in credit risk management.
- A Risk Management Redesign project was launched in 1997 which is designed to enable us to increase value delivered to our customers while maintaining the quality of credit decisions. The process improvement changes recommended by the project team represent an evolution in the methodologies that have been introduced in credit risk management in recent years, and will further lever portfolio management methodologies, increase differentiation between underwriting and retention risk and reduce transaction processing time.

† Defined in the Glossary on page 90

Asset Quality Management

Strategy

To maintain a well-diversified asset portfolio regardless of the economic environment and to earn a return appropriate to the risk profile of the portfolio.

Process Overview

Our management strategy incorporates a continued commitment to diversify risks within our loan and investment portfolios as an integral element in effectively managing risk. We seek to employ the best available technologies and methods to manage credit risk. Management has supplemented traditional controls on risk concentrations with quantitative tools that help measure and price credit risks, mainly those in the corporate and institutional portfolio. Strict adherence to a clearly defined process has enabled us to maintain a loan portfolio that is well-diversified by size and risk category throughout individual, commercial, corporate, institutional and geographic markets.

Results: A Well-Diversified Portfolio

The largest components of our overall loan portfolio are as follows:

Commercial, Corporate and Institutional Loan Portfolio (34.3% of Total Assets in 1997 versus 34.4% in 1996)

In 1997, securities purchased under resale agreements (reverse repos) and loans to financial institutions represented the highest weighting in the overall commercial loan portfolio (38.4%). This compares to a 38.9% weighting in 1996. The remainder of the portfolio was broadly diversified geographically, by industry, industry sub-sector and client relationship. Manufacturing and service industries are by their nature diversified among many industry sub-sectors. Our exposure to commercial real estate declined to 5.8% of total net commercial loans compared to 6.2% in 1996. This decline was primarily due to our success in reducing our portfolio of distressed assets and loans.

Measures:
We rely on two primary measures to monitor success in managing the loan portfolio and as a result, asset quality:

- **The Provisioning Ratio** is the most accurate indicator of underlying asset quality over the long term and represents the base level of provisions necessary to cover losses in the lending portfolios. The provisioning ratio is calculated as the annual provision for credit losses (PCL) as a percentage of average loans and acceptances (collectively referred to as loans).
- **Gross impaired loans as a percentage of equity plus the allowance for credit losses (allowance)** measures the financial condition of our portfolio by comparing the volume of impaired loans to the level of capital and reserves available to absorb loan losses.

Individual Portfolio (24.1% of Total Assets in 1997 versus 26.6% in 1996)

Mortgages continue to be the predominant lending product in the loans to individuals portfolio. This credit portfolio results from the operation of an efficient, highly disciplined lending process which, combined with the risk diversification aspects, results in loan loss performance that is quite predictable and has tended to follow economic cycles.

Continued Strong Performance

In terms of our performance measures for asset quality, 1997 represented a continuation of strong performance.

The provisioning ratio was 23 basis points, unchanged from 1996. The provision for credit losses includes a specific provision of $75 million and a $200 million increase to the general allowance charged to provision for credit losses. A further $100 million was transferred from Harris' allowance for credit losses to the general allowance, bringing the total general allowance to $775 million, an increase of $300 million from 1996. Not all of the impairment on the loan portfolio can be specifically identified on a loan-by-loan basis. Recognizing this, we maintain a general allowance which is based upon statistical analysis of past performance, and management's judgement. We prudently decided to build our general allowance in 1997. This accords with our policy of increasing the general allowance in years when specific loan losses are less than the annual expected loss amount; the general allowance will decline as specific allowances are determined for loans. Our primary regulator, OSFI, has permitted the amount of the general allowance to be classified as Tier 2 capital.

Asset Quality Management Continued

Due to our continued pursuit of loan diversification and our thorough portfolio management discipline, the probability of single large losses has reduced. These methodologies effectively confine larger credit exposures to only the best-quality risks and to short-term situations such as syndicated loan underwriting. There were no material single-item losses in 1997 and the year was characterized by ongoing recoveries on larger problem loans that originated several years ago.

Asset Quality – Performance *($ millions except as noted)*

As at or for the year ended October 31	**1997**	1996	1995	1994	1993
Specific provision	**75**	225	150	460	675
General provision	**200**	0	125	50	0
Provision for credit losses	**275**	225	275	510	675
Allocation of Specific Provision					
Individuals	**177**	125	96	89	113
Diversified commercial, corporate and institutional	**(102)**	100	54	372	563
Designated lesser developed countries	**0**	0	0	(1)	(1)
Specific provision	**75**	225	150	460	675
Total general allowance	**775**	475	325	200	100
PCL as a % of average loans and acceptances	**0.23**	0.23	0.30	0.63	0.87
PCL as a % of average loans and acceptances *(a)*					
Individuals	**0.36**	0.28	0.24	0.25	0.35
Commercial, corporate and institutional	**(0.15)**	0.18	0.11	0.83	1.28
Canada *(b)*	**0.43**	0.23	0.27	0.51	0.83
United States	**(0.14)**	0.22	0.38	0.98	1.03
Mexico	**0.00**	0.00	0.00	0.00	(1.08)
Other countries	**0.00**	0.00	0.00	(0.22)	0.00

(a) Segment PCL as a percentage of segment average loans and acceptances. The ratio for commercial, corporate and institutional excludes the general allowance.

(b) The ratio for Canada includes the general provision booked in Canada. This provision may be applied against specific loans in Canada, U.S., Mexico or other countries including those of equity investments and securitization vehicles.

Note: For more information see Table 10 on page 58.

The natural diversification in the consumer credit portfolio largely accounts for our losses from that activity following the general business cycle. However, both in the United States and to a lesser extent in Canada, there has been a measurable increase in personal bankruptcy filings despite the stable or improving general economic conditions. Credit standards have been re-validated against current conditions to reflect this reality. Overall performance of the consumer portfolios has remained strong. During the year, we launched the first Canadian securitization of a bank credit card portfolio. In part because of the very high overall quality of our credit card assets, the securitization was well received by investors. In the United States, our strategic alliance with BankBoston and First Annapolis, Partners First, should provide enhanced value from its card franchise.

Diversification of Net Loans and Acceptances *(%) (a)*

As at October 31	**1997**	1996
By Market		
Individuals	**41.2**	43.5
Commercial, corporate & institutional	**58.6**	56.3
Designated LDC	**0.2**	0.2
	100.0	100.0
By Geography *(b)*		
Canada	**63.8**	67.5
United States	**33.3**	30.4
Mexico	**0.4**	0.5
Other countries	**2.5**	1.6
	100.0	100.0
Individuals by Product		
Residential mortgages	**67.0**	63.1
Cards	**3.8**	8.5
Other personal	**29.2**	28.4
	100.0	100.0
Diversified Commercial by Industry *(c)*		
Financial institutions	**16.8**	19.4
Commercial mortgages	**8.6**	8.0
Construction (non-real estate)	**1.9**	2.1
Real estate	**5.8**	6.2
Manufacturing	**17.6**	16.2
Mining and energy	**7.7**	6.8
Service industries	**12.1**	12.8
Retail trade	**5.2**	5.2
Wholesale trade	**6.5**	6.2
Agriculture	**3.9**	3.9
Transportation/Utilities	**6.1**	5.3
Communications	**4.4**	5.3
Other	**3.4**	2.6
	100.0	100.0

(a) Net of specific allowance for credit losses.

(b) Geographic location is based on the ultimate risk of the underlying asset.

(c) Excludes securities purchased under resale agreements.

Note: For more information see Table 9 on page 58.

Impaired Loans More Than Covered by Allowance

The other primary performance measure of asset quality is the ratio of gross impaired loans to equity plus the allowance for credit losses. Driven by the reduced incidence of new impaired loans and strong recoveries on past problem loans, the ratio has improved for the fourth year in succession to 7.65% at year end, compared to 15.71% at October 31, 1996.

For the first year on record we had a negative net impaired loans position. That is, the allowance for credit losses exceeded the gross amount of impaired loans by $358 million. This is attributable to the strong asset quality performance that has resulted in a significant reduction of gross impaired loans and also the prudential build-up of the general allowance, as described above and set out in the table "Asset Quality – Condition". Of course, the most significant factor leading to lower impaired loan totals is the favourable economic environment in our major markets. However, we have also further strengthened our monitoring methods for larger corporate loans to detect quality deterioration even earlier. This is intended to permit a broader range of options for us to expeditiously address emerging problems with our clients. Moreover, the deepening liquidity of the secondary market for loan assets assists us in managing our loans on a portfolio basis; this is most advanced in respect to larger corporate credit. These enhanced portfolio management and monitoring techniques have in themselves contributed to a reduced incidence of impaired loans.

Asset Quality – Condition *($ millions except as noted)*

As at or for the year ended October 31	**1997**	1996	1995	1994	1993
Gross impaired loans	**787**	1,397	1,730	2,447	4,249
Net impaired loans	**(358)**	364	835	1,376	2,263
GIL as a % of equity & ACL	**7.65**	15.71	20.48	29.86	54.84
NIL as a % of total net loans and acceptances	**(0.30)**	0.35	0.89	1.49	2.91
Migration Analysis – GIL					
Additions	**660**	959	806	1,267	1,587
Reductions *(a)*	**(936)**	(948)	(1,073)	(1,922)	(747)
Net additions (reductions)	**(276)**	11	(267)	(655)	840
Segmentation of NIL					
Individuals	**116**	149	98	84	91
Diversified commercial *(c)*	**301**	690	1,062	1,492	2,048
General provision	**(775)**	(475)	(325)	(200)	(100)
Designated lesser developed countries	**0**	0	0	0	224
Total NIL	**(358)**	364	835	1,376	2,263
NIL as a % of Net Loans and Acceptances *(b)*					
Individuals	**0.23**	0.33	0.24	0.23	0.28
Diversified commercial *(c)*	**0.57**	1.56	2.50	3.64	5.44
Designated lesser developed countries	**0.00**	0.00	0.00	0.00	71.34
Canada	**(0.47)**	0.09	0.26	0.79	1.68
United States	**0.02**	0.95	2.47	3.05	4.99
Mexico	**0.00**	0.00	0.00	0.00	0.00
Other countries	**0.00**	0.00	0.00	0.00	17.60

(a) Loans and acceptances returning to performing status, sales and repayments.
(b) Segment NIL as a percentage of segment net loans and acceptances.
(c) Excludes securities purchased under resale agreements.
Note: For more information see Table 12 on page 60.

Asset Quality – Coverage *($ millions except as noted)*

As at or for the year ended October 31	**1997**	1996	1995	1994	1993
Allowance for credit losses, beginning of year	**1,143**	1,255	1,496	1,999	2,070
Provision for credit losses	**275**	225	275	510	675
Recoveries	**158**	103	52	75	59
Write-offs *(a)*	**(357)**	(449)	(565)	(1,147)	(888)
Other – including foreign exchange rates	**20**	9	(3)	59	83
Total increase (decrease)	**96**	(112)	(241)	(503)	(71)
Allowance for credit losses, end of year	**1,239**	1,143	1,255	1,496	1,999
ACL as a % of GIL *(b)*	**157.2**	81.7	72.5	61.1	46.7
Individuals	**14.7**	13.9	19.0	22.0	24.8
Diversified commercial *(c)*	**53.4**	43.2	33.7	34.6	36.8
Designated lesser developed countries	**100.0**	100.0	100.0	100.0	74.8
Net write-offs as a % of average loans and acceptances	**0.2**	0.3	0.6	1.3	1.1

(a) Write-offs on designated lesser developed countries include losses on sales of performing assets that were charged directly against the allowance (1997 – $3 million, 1996 – $109 million, 1995 – $115 million, 1994 – $0, 1993 – $65 million).
(b) Segment ACL as a percentage of segment GIL.
(c) Excludes securities purchased under resale agreements.
Note: For more information see Tables 10 and 11 on pages 58 and 60.

In 1996, net impaired loans declined 56.4% from 1995 levels to $364 million as a result of the build-up of the general allowance and the surplus allowance in Harris. Additionally, we transferred $150 million of the excess country risk allowance to the general allowance in 1996.

Capital Management

Strategy

To maintain a consistently strong capital position in support of building long-term shareholder value. A consistently strong capital position means we will:

- exceed minimum regulatory requirements at all times;
- cover the economic risks generated by our portfolio of businesses;
- meet the expectations of the market and our regulators; and
- return unneeded capital to the shareholders.

Results

Our Tier 1 ratio increased to 6.80% in 1997 from 6.71% in 1996. The increase in the Tier 1 ratio was driven by an 18.7% increase in our Tier 1 capital and a 17.0% increase in risk-weighted assets†. The Tier 1 capital increase was due to retained earnings growth and the issuance of $400 million of preferred shares in the second quarter. The growth in risk-weighted assets was moderated to a level more supportable by internally generated capital by a balance sheet efficiency initiative we launched during the year. Transactions undertaken within this initiative included the securitization of $2 billion in credit card receivables and the purchase of portfolio insurance on $8 billion of conventional residential mortgages in Canada.

Measure:
The Tier 1 ratio is our primary measure of capital adequacy. This measure is defined by the OSFI as Tier 1 capital as a percentage of risk-weighted assets.

In April, we announced a share repurchase program which enables us to purchase up to 7.5 million Bank of Montreal common shares issued and outstanding until April 16, 1998. In order to preserve our strong capital position given the sustained growth in the balance sheet, no shares were bought back under the share repurchase program during the year.

Process Overview

We need to maintain sufficient capital to support the risks of our businesses, allow for needed investments in the future and protect depositors from the risk of loss. Capital is a more permanent type of funding and is subordinated to the claims of depositors and other general creditors. It includes common and preferred equity and subordinated debt.

Determining the amount and mix of capital needed requires balancing the needs of three key stakeholders: depositors, rating agencies and shareholders. Striking this balance involves the trade-off of financial condition (flexibility) and financial performance (value creation) objectives.

Principal Sources and Applications of Tier 1 Capital *($ millions)*

For the year ended October 31	**1997**	1996	1995	1994	1993
Tier 1 Capital Generation					
Net income	**1,305**	1,168	986	825	709
Amortization of goodwill	**51**	41	40	21	20
Net common share/minority interest issuance	**3**	24	17	448	86
Preferred share issuance	**400**	–	–	–	–
Other (FX, translation, etc.)	**98**	(41)	(10)	31	67
Total Tier 1 generated	**1,857**	1,192	1,033	1,325	882
Tier 1 Capital Applications					
Dividends declared – common	**(427)**	(386)	(350)	(305)	(278)
– preferred	**(83)**	(69)	(69)	(69)	(68)
Common share repurchases	–	(162)	(103)	–	–
Purchased goodwill	–	(192)	–	(310)	–
Support for gross RWA growth *(a)*	**(1,686)**	(713)	(664)	(736)	(78)
Balance sheet efficiency initiatives *(a) (b)*	**420**	–	–	–	–
Total Tier 1 applications	**(1,776)**	(1,522)	(1,186)	(1,420)	(424)
Net Tier 1 capital generated	**81**	(330)	(153)	(95)	458
Tier 1 ratio *(%)*	**6.80**	6.71	7.02	7.20	7.35
Target Tier 1 ratio *(%)*	**7.00**				

(a) Required support at target Tier 1 ratio at 7%.
(b) Includes $2 billion credit card securitizations and purchase of portfolio insurance on $8 billion of conventional residential mortgages.

† Defined in the Glossary on page 90

As secondary measures, we monitor the Total Capital Ratio, defined by OSFI as the ratio of total capital to risk-weighted assets, and the assets to capital multiple, which is defined by OSFI to be the multiple of adjusted assets (as at assets including guarantees and letters of credit) to total capital. Our Total Capital Ratio was 9.66% as at October 31, 1997. This was up from 9.11% at the end of 1996, a level which included a $300 million issue of subordinated debentures that settled on November 1, 1996. The increase in the Total Capital Ratio was due primarily to the strengthening of our Tier 1 ratio mentioned above, the issue of $700 million in new subordinated debt, and the inclusion with OSFI approval of $775 million in general allowances for credit losses into our total capital base. These factors served to more than offset the redemption of two existing series of debentures, while providing support for the increased value of our Bancomer investment and our participation in a collateralized bond obligation pool we manage on behalf of outside investors.

In 1996, our Tier 1 ratio decreased to 6.71% from 7.02% in 1995. The reduction in the ratio resulted primarily from the impact of $192 million in goodwill assumed with the purchase of Household Bank's Illinois branch network during the year. Also in 1996, we repurchased five million common shares under our 1996 Share Repurchase Program, cancelling approximately 1.9% of the outstanding shares at that time.

Capital Management *($ millions except as noted)*

As at October 31	**1997**	1996	1995	1994	1993
Canadian Basis					
Tier 1					
Common shareholders' equity	**7,629**	6,729	6,174	5,678	4,834
Non-cumulative preferred shares	**1,274**	857	858	860	852
Non-controlling interest in subsidiaries	**80**	101	121	144	66
Goodwill	**(521)**	(557)	(411)	(450)	(159)
Total Tier 1 capital	**8,462**	7,130	6,742	6,232	5,593
Tier 2					
Cumulative preferred shares	**0**	0	0	0	0
Subordinated debt	**3,582**	3,179	2,268	1,999	2,248
General allowance for credit losses *(a)*	**775**	0	0	0	0
Total Tier 2 capital	**4,357**	3,179	2,268	1,999	2,248
Less: Junior note – CBO program	**113**	0	0	0	0
Investment in non-consolidated subsidiaries/ substantial investments	**697**	625	0	0	0
Total capital	**12,009**	9,684	9,010	8,231	7,841
Risk-weighted assets	**124,348**	106,267	96,075	86,589	76,074
Risk-weighted capital ratios *(%)*					
Tier 1	**6.80**	6.71	7.02	7.20	7.35
Total*	**9.66**	9.11	9.38	9.51	10.31
U.S. basis Tier 1	**6.35**	6.26	6.82	6.91	7.13
Total U.S. basis*	**9.92**	9.81	9.97	10.07	11.14
Assets to capital multiple	**18.0**	19.0	17.6	17.7	15.6
Equity to assets *(%)*	**4.4**	4.6	4.7	4.8	4.9

**The October 31, 1996 total capital ratio and Tier 2 capital reflects the inclusion of the $300 million in subordinated debentures issued November 1, 1996. Excluding this issue, the total capital ratio would be 8.83%, and 9.53% on a U.S. basis.*

(a) General allowance included with the approval of OSFI beginning in 1997.

Liquidity Management

Management Strategy

To maintain sufficient cash resources to meet customer requirements.

Process Overview

Liquidity management is necessary to ensure that we can generate or obtain cash at a reasonable price in order to satisfy our broad range of customer cash needs as well as our own operating needs. We actively measure and forecast liquidity requirements based on historical, current and projected cash flow trends. We also run sensitivity analyses to determine the impact of withdrawal propensity factors and commitment drawdown factors, as well as changing business environments, on funding requirements. These analyses enable us to monitor changes in liquidity and react in a timely and appropriate manner.

We have three primary deposit sources of funds that we use to provide liquidity: retail deposits, wholesale deposits, and the capital markets.

Our large base of deposits by individuals provides a strong source of funding in both Canadian and U.S. dollar markets. These deposits, along with our strong capital base, reduce any reliance on other more volatile sources of funds.

The deposit portfolio characteristics in 1997 continued to be broadly diversified by customer, type and currency.

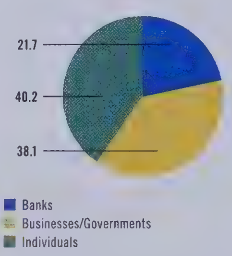
Our wholesale funding activities are performed by professional teams situated in several key financial markets worldwide, and are subject to stringent liability diversification policies, the objectives of which are to:

- maintain a funding capability in all major markets;
- maintain a diversified deposit base so as to avoid dependency on any one type or group of depositors;
- ensure that our long-term funding and stability needs are a priority over short-term profit opportunities; and
- satisfy shareholders' and regulators' requirements for prudent financial management.

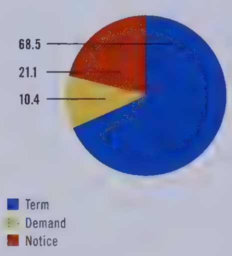
To complement day-to-day cash management activities, we access capital markets for medium- to long-term funds as required and when market opportunities permit. This activity generally involves funds which are two to ten years in term.

We continue to play an active role in the capital markets not only to enhance diversification but to take advantage of opportunities for the most cost-efficient source of funding.

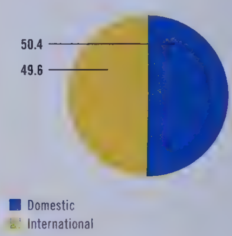
Deposits by Customer *(%)*
Balances as at October 31, 1997



Deposits by Type *(%)*
Balances as at October 31, 1997



Deposits by Currency *(%)*
Balances as at October 31, 1997



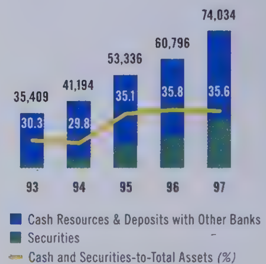
Measure:
The liquidity ratio is our primary measure for liquidity coverage and represents the ratio of cash, securities and deposits with other banks (liquid assets) to total assets.

Results

Total liquid assets as at October 31, 1997 increased by $13.2 billion or 21.8% from 1996. The liquidity ratio, as defined above, decreased from 35.8% in 1996 to 35.6% in 1997. The increase in total assets was attributable to growth in most loan categories, with the exception of credit cards due to the credit card securitization discussed on page 48. The decrease in the liquidity ratio was partly the result of opportunities for high-quality non-liquid assets which were taken throughout the year.

Total liquid assets in 1996 increased by $7.5 billion or 14% from 1995. Most of the increase was in securities.

Liquid Assets-to-Total Assets
($ millions)



Liquidity *($ millions except as noted)*

As at October 31	**1997**	1996	1995	1994	1993
Cash resources	**2,189**	2,742	897	840	1,843
Securities	**41,789**	36,609	33,019	26,535	23,328
Deposits with other banks	**30,056**	21,445	19,420	13,819	10,238
Total liquid assets	**74,034**	60,796	53,336	41,194	35,409
Total liquid assets-to-total assets *(%)*	**35.6**	35.8	35.1	29.8	30.3
Total deposits	**144,212**	119,262	109,605	98,241	87,859

Note: For more information see Tables 17 and 18 on page 63.

Economic Outlook

Economic Developments in 1997

The North American economy is on track to achieve very strong growth this year. Output in the United States is expected to show an annual increase of almost 4%. Strong domestic spending and an attendant rise in inventories are largely responsible for this strength. The solid rise in U.S. domestic spending has provided a growing market for exports from Canada and Mexico. However, the expected strengthening in growth of these two economies this year of over 3.5% and 6.5%, respectively, is more a reflection of domestic spending making a more solid contribution to overall output.

The strong growth in the United States is occurring at a time when the economy is thought to be operating beyond its capacity limits. For example, since the spring of this year the unemployment rate has generally remained below 5%. The high level of resource utilization is expected to prompt a 50-basis-point tightening in U.S. interest rates by early 1998. In contrast, the Canadian economy's growth is occurring in an environment of unused capacity. For example, the unemployment rate is close to 9%, and it is expected to remain little changed through the end of 1997. However, interest rates are at unsustainably low levels in Canada and a rise of approximately 50 basis points is expected early next year as the Bank of Canada moves monetary conditions towards less accommodative levels.

Gross Domestic Product Annual Growth* *(%)*

	1997	1998
Canada	3.8	4.3
United States	3.7	2.7
Mexico	6.9	5.0

Annual Average Exchange Rates*

	1997	1998
Cdn$/US$	1.383	1.332
Peso/US$	7.92	8.52

**Estimates for the year ending December 31.*

Economic Expectations for 1998

A modest increase in U.S. interest rates and the past appreciation of the U.S. dollar are expected to help temper overall U.S. GDP growth to slightly above 2.5% in 1998. This slowing will limit the projected deterioration in inflation to over 3% by the end of next year. With indications that growth is likely to slow further in 1999, we do not expect a further tightening by the Fed. However, the main risk to this outlook is that the U.S. economy may not slow and inflationary pressures may intensify. This would imply the need for further interest rate increases in 1998 and a more pronounced weakening in 1999.

The expected slowing in the U.S. economy will dampen Canadian export growth next year. However, in spite of the Bank of Canada moving towards less accommodative conditions late in 1997, interest rates should remain sufficiently stimulative to allow a further strengthening in domestic activity. This will result in a rise in overall growth to over 4% next year. This will absorb some of the slack in the economy and reduce the unemployment rate to under 8.5% by the end of next year. However, this still implies that sufficient unused capacity through most of next year will put downward pressure on inflation. As a result, we expect consumer price inflation to fall to the lower end of the Bank of Canada's target range of 1% to 3% by the fourth quarter of 1998. Though inflationary pressures are unlikely to emerge next year, a further tightening in monetary conditions will probably be needed through 1998 to moderate growth in subsequent years and to keep inflation quiescent. It is likely that most of this restraint will come from an appreciation of the Canadian dollar rather than from further interest rate increases. We expect the Canadian dollar to appreciate relative to the U.S. dollar in 1998.

The expected slowing in the U.S. economy will have a more noticeable effect on the Mexican economy. However, increasing confidence, falling Mexican interest rates, an expected weaker currency and the trade opportunities provided by NAFTA will allow growth to be maintained at 5% in 1998. The key challenges are to maintain balanced policies, especially fiscal, and to implement pending structural reforms within the framework of a more open political system.

Supplemental Information

Table 1 Shareholder Value

For the year ended October 31	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Market Price per Common Share *($) (a)*										
High	**61.600**	41.650	31.000	30.750	27.375	24.125	19.188	17.188	17.625	14.875
Low	**39.050**	29.375	24.125	22.000	21.313	18.563	13.250	12.250	13.313	12.313
Close	**60.850**	40.550	29.750	25.125	26.875	23.563	18.688	13.500	17.000	14.250
Common Dividends										
Dividends declared *($) (a)*	**1.64**	1.48	1.32	1.20	1.12	1.06	1.06	1.06	1.06	1.00
Dividends paid *($) (a)*	**1.60**	1.41	1.29	1.18	1.11	1.06	1.06	1.06	1.05	1.00
Dividend payout ratio *(%)*	**35.0**	35.1	38.2	40.3	43.3	44.7	46.0	50.7	nm	45.9
Dividend yield *(%)*	**3.9**	4.7	5.1	4.4	4.7	5.7	7.9	6.2	7.3	7.5
Return on Investment (ROI)										
ROI *(%)*	**55.0**	42.4	24.1	(2.3)	19.4	32.4	47.4	(14.4)	27.9	15.6
Five-year ROI *(%)*	**26.1**	22.2	23.1	14.3	20.6	19.8	9.1	4.4	15.1	8.3
Common Share Information *(b)*										
Number of common shares outstanding *(in thousands) (a)*										
As at	**261,436**	259,937	263,685	265,457	249,094	244,819	238,770	229,989	221,520	213,524
Average – basic	**260,410**	261,233	265,632	251,307	247,727	242,079	235,085	226,022	218,023	209,803
– fully diluted	**268,700**	268,362	273,919	256,496	252,634	245,131	235,085	226,022	218,023	223,803
Number of shareholder accounts	**53,651**	55,571	57,187	58,879	62,342	65,723	72,887	78,789	82,855	90,479
Total book value per common share *($) (a)*	**29.18**	25.89	23.41	21.39	19.40	17.69	16.05	15.00	13.98	15.61
Total market value of common shares *($ billions)*	**15.9**	10.5	7.8	6.7	6.7	5.8	4.5	3.1	3.8	3.0
Price-to-earnings ratio *(times)*	**13.0**	9.6	8.6	8.3	10.4	9.9	8.1	6.4	nm	6.5
Market-to-book value *(times)*	**2.09**	1.57	1.27	1.17	1.39	1.33	1.16	0.90	1.22	0.91

Table 2 Earnings Growth *($ millions except as noted)*

For the year ended October 31	1997	1996*	1995*	1994*	1993*	1992*	1991*	1990*	1989*	1988*
Income Statement										
Net interest income (TEB) *(c)*	**4,186**	3,711	3,564	3,325	3,207	3,038	2,734	2,575	2,568	2,607
Other income	**2,981**	2,516	2,102	1,871	1,654	1,404	1,261	1,078	1,018	1,046
Total revenues (TEB) *(c)*	**7,167**	6,227	5,666	5,196	4,861	4,442	3,995	3,653	3,586	3,653
Provision for credit losses	**275**	225	275	510	675	550	337	169	1,181	390
Non-interest expense	**4,613**	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330	2,297
Income before provision for income taxes and non-controlling interest in subsidiary	**2,279**	2,053	1,745	1,463	1,270	1,127	1,053	1,031	75	966
Provision for income taxes (TEB) *(c)*	**949**	865	746	627	555	483	452	506	109	460
Non-controlling interest in subsidiary	**25**	20	13	11	6	4	6	3	5	6
Net income/(loss)	**1,305**	1,168	986	825	709	640	595	522	(39)	500
Year-over-year growth *(%)*	**11.7**	18.4	19.5	16.4	10.9	7.5	13.9	nm	(107.7)	nm
Earnings per Share *($) (a)*										
Basic	**4.69**	4.21	3.45	3.01	2.59	2.38	2.31	2.10	(0.39)	2.19
Cash EPS *(d)*	**4.97**	4.44	3.67	3.15	2.73	NA	NA	NA	NA	NA
Fully diluted	**4.62**	4.13	3.38	2.97	2.55	2.36	2.31	2.10	nm	2.16
Year-over-year growth *(%)*	**11.9**	22.2	13.8	16.5	8.1	2.2	10.0	nm	nm	nm

Table 3 Profitability *($ millions except as noted)*

For the year ended October 31	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Net income/(loss)	**1,305**	1,168	986	825	709	640	595	522	(39)	500
Preferred dividends	**83**	69	69	69	68	64	51	48	47	41
Net income available to common shareholders	**1,222**	1,099	917	756	641	576	544	474	(86)	459
Average common shareholders' equity	**7,165**	6,457	5,937	5,088	4,564	4,072	3,623	3,259	3,434	3,141
Return on common shareholders' equity *(%)*	**17.1**	17.0	15.4	14.9	14.1	14.1	15.0	14.6	(2.5)	14.7
Economic performance threshold *(%)*	**12.0**	12.0	12.0	13.0	12.5	13.2	14.8	15.6	14.9	14.9
Return on average total equity *(%)*	**15.8**	16.0	14.5	13.9	13.1	13.2	14.2	13.9	(1.0)	13.9
Cash ROE *(%) (e)**	**20.0**	19.8	18.2	16.4	15.7	NA	NA	NA	NA	NA
Return on average assets *(%)*	**0.66**	0.74	0.68	0.68	0.63	0.61	0.63	0.64	(0.05)	0.63
Return on average assets available to common shareholders *(%)*	**0.62**	0.69	0.64	0.62	0.57	0.55	0.58	0.58	(0.11)	0.58

**Reclassified to conform with the current year's presentation.*

(a) Restated to reflect the effect of the two-for-one stock distribution completed in March 1993.

(b) As at October 31

(c) The taxable equivalent (TEB) adjustment increases interest income on tax-efficient assets to the amount that would result if the income were fully taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

(d) Cash EPS is earnings per share as reported adjusted for the after-tax impact on earnings of non-cash goodwill and other valuation intangibles.

(e) Cash ROE is return on common shareholders' equity as reported adjusted for the after-tax impact on earnings and common shareholders' equity of non-cash goodwill and other valuation intangibles.

NA – Not available.

nm – Not meaningful.

Table 4 | Total Revenue Detail *($ millions except as noted)*

For the year ended October 31	**1997**	1996*	1995*	1994*	1993*	1992*	1991*	1990*	1989*	1988*
Total revenue (TEB) *(a)*	**7,167**	6,227	5,666	5,196	4,861	4,442	3,995	3,653	3,586	3,653
Year-over-year growth *(%)*	**15.1**	9.9	9.0	6.9	9.4	11.2	9.4	1.9	(1.8)	17.5
Net Interest Income										
Net interest income as reported	**4,077**	3,603	3,480	3,258	3,139	2,971	2,666	2,504	2,495	2,521
Taxable equivalent adjustment (TEB) *(a)*	**109**	108	84	67	68	67	68	71	73	86
Net interest income (TEB) *(a)*	**4,186**	3,711	3,564	3,325	3,207	3,038	2,734	2,575	2,568	2,607
Year-over-year growth *(%)*	**12.8**	4.1	7.2	3.7	5.6	11.1	6.2	0.2	(1.5)	15.6
Net interest income (TEB) *(a)*	**4,186**	3,711	3,564	3,325	3,207					
Less: Non-operating items										
Lesser developed countries (LDC) interest income	**121**	73	79	141	156					
Trading interest income	**8**	12	23	23	76					
Interest income on impaired loans (excluding LDC)	**129**	43	22	35	40					
Operating net interest income (TEB) *(a)*	**3,928**	3,583	3,440	3,126	2,935					
Year-over-year growth *(%)*	**9.7**	4.2	10.0	6.6	3.8					
Spread										
Total average assets *(b)*	**196,721**	158,316	144,115	122,234	113,387	104,591	94,118	81,971	78,878	79,312
Average net interest spread *(%)*	**2.13**	2.34	2.47	2.72	2.83	2.90	2.91	3.14	3.26	3.29
Average operating net interest spread *(%)*	**2.00**	2.26	2.39	2.56	2.59					
Average Canadian dollar spread *(%)*	**2.70**	2.94	3.39	3.48	3.44	3.65	3.43	3.29	3.54	3.96
Average U.S. dollar and other currencies spread *(%)*	**1.48**	1.58	1.22	1.59	1.94	1.84	2.11	2.90	2.86	2.50
Other Income										
Deposit and payment service charges	**508**	473	451	437	430					
Lending fees	**240**	194	186	180	145					
Capital market fees	**919**	760	495	313	238					
Card services	**283**	234	230	211	208					
Investment management and custodial fees	**299**	221	240	197	194					
Mutual fund revenues	**155**	87	53	56	30					
Trading revenue	**276**	277	225	226	202					
Other fees and commissions										
Revenue from insurance-related activities	**62**	44	36	51	18					
Gain/(loss) on disposal of premises and equipment	**(5)**	(22)	(26)	(12)	4					
Foreign exchange revenue other than trading	**126**	120	99	89	48					
Investment securities gains/(losses)	**52**	71	46	37	40					
Other	**66**	57	67	86	97					
Total other fees and commissions	**301**	270	222	251	207					
Total other income	**2,981**	2,516	2,102	1,871	1,654	1,404	1,261	1,078	1,018	1,046
Year-over-year growth *(%)*	**18.5**	19.7	12.3	13.1	17.8	11.4	16.9	5.8	(2.6)	22.5
Other income as a % of total revenue	**41.6**	40.4	37.1	36.0	34.0	31.6	31.5	29.5	28.4	28.6
Total other income	**2,981**	2,516	2,102	1,871	1,654					
Less: Non-operating items										
Total trading revenue	**276**	277	225	226	202					
Investment securities gains/(losses)	**52**	71	46	37	40					
Operating other income	**2,653**	2,168	1,831	1,608	1,412					
Year-over-year growth *(%)*	**22.5**	18.4	13.8	13.9	13.7					
Other Information *(units – as at October 31)*										
Number of employees *(c)*	**34,286**	33,468	33,341	34,769	32,067	32,126	32,130	33,580	33,666	34,115
Number of bank branches	**1,246**	1,296	1,245	1,248	1,214	1,231	1,239	1,242	1,230	1,226
Number of automated banking machines (Canada)	**2,035**	2,017	1,763	1,708	1,538	1,293	1,221	1,163	937	753
Rates										
Average Canadian prime rate *(%)*	**4.80**	6.67	8.58	6.42	6.44	7.49	10.74	14.11	13.01	10.35
Average U.S. prime rate *(%)*	**8.51**	8.49	8.89	6.69	6.04	6.59	9.02	10.25	10.99	9.06
Canadian/U.S. dollar exchange rates *($) (d)*										
High	**1.33**	1.34	1.33	1.29	1.24	1.12	1.12	1.13	1.17	1.20
Low	**1.41**	1.38	1.42	1.40	1.34	1.26	1.17	1.21	1.24	1.33
Average	**1.37**	1.37	1.38	1.36	1.29	1.19	1.15	1.17	1.19	1.25
End of period	**1.41**	1.34	1.34	1.35	1.32	1.24	1.12	1.17	1.17	1.22

**Reclassified to conform with the current year's presentation.*

(a) The taxable equivalent (TEB) adjustment increases interest income on tax-efficient assets to the amount that would result if the income were fully taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

(b) Daily average for 1990 to 1997.

(c) This number constitutes full-time equivalent number of employees, comprising full-time, part-time and over-time employees.

(d) Rates are expressed in Canadian dollars. Rates are the noon buying rates in New York for cable transfer in U.S. dollars as certified for customs purposes by the Federal Reserve Bank of New York, i.e., "the Noon Buying Rate".

Table 5 Average Balances and Average Interest Rates of Assets and Liabilities *($ millions except as noted)*

For the year ended October 31	1997 Average balances	1997 Average interest yield (%)	1997 Interest income	1996* Average balances	1996* Average interest yield (%)	1996* Interest income	1995* Average balances	1995* Average interest yield (%)	1995* Interest income
Assets									
Canadian Dollars									
Deposits with other banks	**2,387**	**3.19**	**76**	2,097	4.87	102	1,977	6.45	128
Securities	**21,693**	**4.93**	**1,069**	20,475	6.44	1,319	21,231	5.26	1,117
Loans									
Residential mortgages	**30,415**	**6.88**	**2,091**	26,625	7.83	2,084	23,906	8.37	2,001
Non-residential mortgages	**1,621**	**7.86**	**128**	1,531	8.94	137	1,508	9.71	146
Consumer instalment and other personal loans	**11,389**	**6.76**	**769**	10,509	8.18	859	10,018	9.45	946
Credit card loans	**2,264**	**11.10**	**251**	2,405	12.93	311	2,250	12.72	286
Loans to businesses and governments *(a)*	**24,802**	**5.72**	**1,419**	19,295	7.27	1,402	18,517	7.97	1,476
Total loans	**70,491**	**6.61**	**4,658**	60,365	7.94	4,793	56,199	8.64	4,855
Other non-interest bearing assets	**10,191**			6,087			3,723		
Total Canadian dollars	**104,762**	**5.54**	**5,803**	89,024	6.98	6,214	83,130	7.34	6,100
U.S. Dollar and Other Currencies									
Deposits with other banks	**22,909**	**5.48**	**1,256**	16,462	5.36	882	12,799	5.70	729
Securities	**17,118**	**6.90**	**1,182**	12,842	7.08	909	10,047	7.23	726
Loans									
Residential mortgages	**2,009**	**7.66**	**154**	1,538	7.82	120	1,177	8.01	94
Non-residential mortgages	**671**	**8.42**	**56**	358	8.53	30	489	7.97	39
Consumer instalment and other personal loans	**2,404**	**8.49**	**204**	1,612	8.36	135	1,317	8.28	109
Credit card loans	**1,194**	**14.27**	**170**	1,356	13.34	181	1,254	13.39	168
Loans to businesses and governments *(a)*	**36,367**	**7.75**	**2,818**	29,369	7.22	2,121	26,592	7.91	2,103
Total loans	**42,645**	**7.98**	**3,402**	34,233	7.56	2,587	30,829	8.15	2,513
Other non-interest bearing assets	**9,287**			5,755			7,310		
Total U.S. dollar and other currencies	**91,959**	**6.35**	**5,840**	69,292	6.32	4,378	60,985	6.51	3,968
Total All Currencies									
Total assets and interest income	**196,721**	**5.92**	**11,643**	158,316	6.69	10,592	144,115	6.98	10,068

For the year ended October 31	1997 Average balances	1997 Average interest cost (%)	1997 Interest expense	1996* Average balances	1996* Average interest cost (%)	1996* Interest expense	1995* Average balances	1995* Average interest cost (%)	1995* Interest expense
Liabilities									
Canadian Dollars									
Deposits									
Banks	**3,468**	**2.99**	**104**	2,749	4.13	114	2,757	6.13	169
Businesses and governments	**19,901**	**1.35**	**269**	13,288	3.87	514	12,159	5.10	620
Individuals	**43,784**	**3.25**	**1,421**	44,156	4.50	1,985	41,928	5.04	2,114
Total deposits	**67,153**	**2.67**	**1,794**	60,193	4.34	2,613	56,844	5.11	2,903
Subordinated debt and other interest bearing liabilities	**21,599**	**5.49**	**1,184**	15,667	6.27	982	14,094	2.67	377
Other non-interest bearing liabilities	**8,080**			6,185			5,733		
Total Canadian dollars	**96,832**	**3.08**	**2,978**	82,045	4.38	3,595	76,671	4.28	3,280
U.S. Dollar and Other Currencies									
Deposits									
Banks	**25,457**	**5.35**	**1,362**	21,896	5.37	1,175	22,163	5.68	1,259
Businesses and governments	**26,156**	**5.67**	**1,483**	21,249	4.43	942	18,865	4.91	926
Individuals	**13,275**	**4.29**	**569**	9,809	4.12	404	7,025	4.40	309
Total deposits	**64,888**	**5.26**	**3,414**	52,954	4.76	2,521	48,053	5.19	2,494
Subordinated debt and other interest bearing liabilities	**19,693**	**5.41**	**1,065**	14,155	5.40	765	11,148	6.55	730
Other non-interest bearing liabilities	**7,034**			1,842			1,441		
Total U.S. dollar and other currencies	**91,615**	**4.89**	**4,479**	68,951	4.76	3,286	60,642	5.32	3,224
Total All Currencies									
Total liabilities and interest expense	**188,447**	**3.96**	**7,457**	150,996	4.56	6,881	137,313	4.74	6,504
Shareholders' equity	**8,274**			7,320			6,802		
Total liabilities and shareholders' equity and interest expense	**196,721**	**3.79**	**7,457**	158,316	4.35	6,881	144,115	4.51	6,504
Net interest spread on average assets and net interest income		**2.13**	**4,186**		2.34	3,711		2.47	3,564

**Reclassified to conform with the current year's presentation.*

The above table presents daily average balances and average yield and cost on assets and liabilities on a TEB basis. (Refer to the glossary on page 90 for a definition of TEB.)

(a) Includes securities purchased under resale agreements.

Table 6 Volume/Rate Analysis of Changes in Net Interest Income *($ millions)*

	1997/1996			1996/1995*		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
For the year ended October 31	**Average balance**	**Average rate**	**Total**	Average balance	Average rate	Total
Assets						
Canadian Dollars						
Deposits with other banks	**14**	**(40)**	**(26)**	7	(33)	(26)
Securities	**78**	**(328)**	**(250)**	(40)	242	202
Loans						
Residential mortgages	**296**	**(289)**	**7**	228	(145)	83
Non-residential mortgages	**9**	**(18)**	**(9)**	3	(12)	(9)
Consumer instalment and other personal loans	**72**	**(162)**	**(90)**	47	(134)	(87)
Credit card loans	**(19)**	**(41)**	**(60)**	20	5	25
Loans to businesses and governments *(a)*	**401**	**(384)**	**17**	61	(135)	(74)
Total loans	**759**	**(894)**	**(135)**	359	(421)	(62)
Change in Canadian dollar interest income	**851**	**(1,262)**	**(411)**	326	(212)	114
U.S. Dollar and Other Currencies						
Deposits with other banks	**345**	**29**	**374**	209	(56)	153
Securities	**303**	**(30)**	**273**	202	(19)	183
Loans						
Residential mortgages	**37**	**(3)**	**34**	29	(3)	26
Non-residential mortgages	**27**	**(1)**	**26**	(11)	2	(9)
Consumer instalment and other personal loans	**66**	**3**	**69**	25	1	26
Credit card loans	**(22)**	**11**	**(11)**	14	(1)	13
Loans to businesses and governments *(a)*	**506**	**191**	**697**	219	(201)	18
Total loans	**614**	**201**	**815**	276	(202)	74
Change in U.S. dollar and other currencies interest income	**1,262**	**200**	**1,462**	687	(277)	410
Total All Currencies						
Change in total interest income	**2,113**	**(1,062)**	**1,051**	1,013	(489)	524
Liabilities						
Canadian Dollars						
Deposits						
Banks	**30**	**(40)**	**(10)**	0	(55)	(55)
Businesses and governments	**255**	**(500)**	**(245)**	58	(164)	(106)
Individuals	**(16)**	**(548)**	**(564)**	112	(241)	(129)
Total deposits	**269**	**(1,088)**	**(819)**	170	(460)	(290)
Subordinated debt and other interest bearing liabilities	**371**	**(169)**	**202**	41	564	605
Change in Canadian dollar interest expense	**640**	**(1,257)**	**(617)**	211	104	315
U.S. Dollar and Other Currencies						
Deposits						
Banks	**191**	**(4)**	**187**	(15)	(69)	(84)
Businesses and governments	**217**	**324**	**541**	117	(101)	16
Individuals	**143**	**22**	**165**	122	(27)	95
Total deposits	**551**	**342**	**893**	224	(197)	27
Subordinated debt and other interest bearing liabilities	**299**	**1**	**300**	198	(163)	35
Change in U.S. dollar and other currencies interest expense	**850**	**343**	**1,193**	422	(360)	62
Total All Currencies						
Change in total interest expense	**1,490**	**(914)**	**576**	633	(256)	377
Change in total net interest income	**623**	**(148)**	**475**	380	(233)	147

**Reclassified to conform with the current year's presentation.*

The above table shows changes in net interest income, on a taxable equivalent basis, due to changes in either average daily balances, that is volume, or average rates. The taxable equivalent (TEB) adjustment increases interest income on tax-efficient assets to the amount that would result if the income were fully taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

(a) Includes securities purchased under resale agreements.

Supplemental Information Continued

Table 7 | Interest Rate Gap Position *($ millions)*

As at October 31	0 to 3 months	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate *(%)*	2–5 years	Effective interest rate *(%)*	Over 5 years	Effective interest rate *(%)*	Non-interest sensitive	Effective interest rate *(%)*	Total
Canadian Dollars												
Assets												
Cash resources	3,737	140	93	3,970	5.54	280	0.00	0	0.00	2,762	na	7,012
Securities	18,510	698	1,025	20,233	4.52	1,715	5.21	485	6.05	9	na	22,442
Loans	32,729	6,347	5,821	44,897	5.86	25,000	6.98	850	7.52	(1)	0.00	70,746
Other	3,689	105	211	4,005	na	1,687	na	0	na	2,478	na	8,170
Total assets	58,665	7,290	7,150	73,105		28,682		1,335		5,248		108,370
Liabilities												
Deposits	38,817	6,193	9,981	54,991	2.49	17,115	3.55	535	6.36	1	0.00	72,642
Subordinated debt	150	0	0	150	4.09	1,160	6.66	1,465	8.69	0	na	2,775
Other	16,703	983	335	18,021	4.57	1,314	0.84	0	0.00	5,067	na	24,402
Shareholders' equity	0	0	0	0	na	322	na	400	na	7,829	na	8,551
Total liabilities and shareholders' equity	55,670	7,176	10,316	73,162		19,911		2,400		12,897		108,370
On-balance sheet gap position	2,995	114	(3,166)	(57)		8,771		(1,065)		(7,649)		0
Off-balance sheet gap position	(4,028)	402	185	(3,441)		1,388		2,053				0
Total interest rate gap position												
1997	**(1,033)**	**516**	**(2,981)**	**(3,498)**		**10,159**		**988**		**(7,649)**		**0**
1996	(5,776)	2,561	(183)	(3,398)		15,303		(267)		(11,638)		0
1995	(2,807)	868	(1,446)	(3,385)		12,948		857		(10,420)		0
1994	(2,954)	2,725	(2,103)	(2,332)		8,802		907		(7,377)		0
1993	(5,586)	3,548	325	(1,713)		7,111		664		(6,062)		0
U.S. Dollar and Other Currencies												
Assets												
Cash resources	11,791	5,460	10,991	28,242	5.49	1,170	1.02	141	7.75	(4,320)	0.00	25,233
Securities	9,966	630	645	11,241	6.20	3,954	6.73	3,619	6.65	533	0.00	19,347
Loans	35,707	2,433	1,296	39,436	6.91	3,558	7.58	819	7.80	359	6.49	44,172
Other	4,525	(95)	(32)	4,398	na	263	na	0	na	6,055	na	10,716
Total assets	61,989	8,428	12,900	83,317		8,945		4,579		2,627		99,468
Liabilities												
Deposits	55,603	5,535	3,982	65,120	5.23	4,814	2.03	1,086	2.02	550	0.00	71,570
Subordinated debt	0	0	211	211	10.00	0	0.00	845	6.95	0	0.00	1,056
Other	24,880	196	6	25,082	3.13	141	9.34	1	6.45	1,266	0.00	26,490
Shareholders' equity	0	0	0	0	na	352	na	0	na	0	na	352
Total liabilities and shareholders' equity	80,483	5,731	4,199	90,413		5,307		1,932		1,816		99,468
On-balance sheet gap position	(18,494)	2,697	8,701	(7,096)		3,638		2,647		811		0
Off-balance sheet gap position	(749)	458	1,871	1,580		853		(2,433)		0		0
Total interest rate gap position												
1997	**(19,243)**	**3,155**	**10,572**	**(5,516)**		**4,491**		**214**		**811**		**0**
1996	(11,184)	2,821	5,924	(2,439)		1,689		852		(102)		0
1995	(4,910)	3,566	792	(552)		3,063		402		(2,913)		0
1994	(352)	(2,939)	1,490	(1,801)		4,109		287		(2,595)		0
1993	(7,971)	3,272	4,838	139		2,313		25		(2,477)		0

na – Not applicable.

Gap Position

The determination of the interest rate gap position, which is based upon the earlier of the repricing or maturity date of assets, liabilities and derivatives used to manage interest rate risk, by necessity, encompasses numerous assumptions.

The gap position presented is at October 31 of each respective year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based upon customer preferences and the application of the Bank's asset and liability management policies.

The assumptions for 1997 are as follows:

Deposits/Liabilities

Interest bearing, non-maturity deposits on which interest rates have historically moved in reference to a specific interest rate basis, such as prime, and which are above the minimum interest committed are reported as interest sensitive in the 0–3 month category. Such deposits may be sensitive to declining rates only to the extent of the minimum interest rate committed. When they no longer demonstrate correlation with market interest rate movements, they are reported in time periods based on expected balance behaviour.

Investment certificates are reported based upon scheduled maturity without reference to early redemption or renewal options.

Term deposits are reported based upon scheduled maturity and estimated redemption based upon historical behaviour.

Fixed rate non-maturity liabilities and non-interest bearing non-maturity liabilities are reported based upon historical account balance behaviour.

Assets

Fixed term assets such as residential mortgages and consumer loans are reported based upon the scheduled repayments and estimated prepayments based on historical behaviour.

Trading assets are reported in the 0–3 month category.

Fixed rate, non-maturity assets and non-interest bearing non-maturity assets are reported based upon historical balance behaviour.

Yields

Yields are based upon the contractual interest rate in effect for the assets or liabilities on the reporting date.

In 1996 non-maturity assets and liabilities were reported as non-interest sensitive.

Table 8 Non-Interest Expenses and Expense-to-Revenue Ratios *($ millions except as noted)*

For the year ended October 31	**1997**	1996	1995	1994	1993	1992	1991	1990	1989	1988
Non-Interest Expense Summary										
Total non-interest expense	**4,613**	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330	2,297
Less: Goodwill and other valuation intangibles	**74**	54	49	31	30	36	36			
Charges/non-recurring items *(a)*	**75**	23	60	71	0	18	24			
Total operating non-interest expense	**4,464**	3,872	3,537	3,121	2,886	2,711	2,545			
Year-over-year growth *(%)*										
Total	**16.8**	8.3	13.1	10.5	5.5	6.1	6.2	5.3	1.4	11.8
Operating	**15.3**	9.5	13.3	8.1	6.5	6.5	7.7			
Non-Interest Expense Detail										
Salaries	**2,284**	1,972	1,758	1,567	1,455	1,348	1,277			
Employee benefits	**251**	238	241	228	209	201	167			
Total salaries and employee benefits	**2,535**	2,210	1,999	1,795	1,664	1,549	1,444			
Premises and equipment										
Rental of real estate	**149**	139	136	125	123	114	101			
Premises, furniture and fixtures	**234**	215	206	188	177	170	179			
Property taxes	**40**	40	41	39	40	37	40			
Computers and equipment	**493**	333	296	248	240	234	215			
Total premises and equipment	**916**	727	679	600	580	555	535			
Communications	**246**	219	208	180	165	167	174			
Other expenses										
Business and capital taxes	**128**	116	110	95	92	82	64			
Professional fees	**250**	173	141	112	64	63	55			
Travel and business development	**238**	199	161	144	122	112	156			
Deposit insurance premiums *(b)*	**73**	94	84	76	62	55	48			
Other	**153**	157	155	119	137	146	93			
Total other expenses	**842**	739	651	546	477	458	416			
Goodwill and other valuation intangibles	**74**	54	49	31	30	36	36			
Special charge	**0**	0	0	71	0	0	0			
Business process improvement initiative charge	**0**	0	60	0	0	0	0			
Total non-interest expense	**4,613**	3,949	3,646	3,223	2,916	2,765	2,605	2,453	2,330	2,297
Government Levies and Taxes *(c)*										
Government levies other than income taxes										
Payroll levies	**123**	109	106	95	88	83	72			
Property taxes	**40**	40	41	39	40	37	40			
Provincial capital taxes	**104**	89	84	71	71	59	42			
Business taxes	**24**	27	26	24	21	23	22			
Goods and services tax and sales tax	**114**	101	88	70	64	61	49			
Deposit insurance	**73**	94	84	76	62	55	48			
Total government levies other than income taxes	**478**	460	429	375	346	318	273			
Provision for income taxes reported in:										
Statement of income	**840**	757	662	560	487	416	384			
Statement of retained earnings	**(92)**	10	9	(23)	(46)	(70)	37			
Total income taxes	**748**	767	671	537	441	346	421			
Total government levies and taxes	**1,226**	1,227	1,100	912	787	664	694			
Total government levies and taxes as a % of net income before taxes and government levies	**46.7**	51.4	53.0	51.8	51.1	48.3	55.4			
Productivity Ratios										
Expense-to-revenue ratio *(%)*	**64.4**	63.4	64.3	62.0	60.0	62.2	65.2	67.2	65.0	62.9
Non-recurring revenue	**0**	0	0	0	0	6	(8)			
Adjusted expense-to-revenue ratio *(%) (d)*	**62.3**	62.2	62.4	60.1	59.4	61.1	63.6			
Adjusted expense-to-revenue ratio *(d)* excluding Investment and Corporate Banking *(%)*	**59.0**	59.2	59.7	58.5	58.2	NA	NA			

(a) The non-recurring item in 1996 is the Harris Savings Association Insurance Fund (SAIF) charge, in 1995 is the business process improvement initiative charge and in 1994 is the Harris special charge.

(b) Includes the SAIF charge.

(c) Government levies are included in various non-interest expense categories.

(d) The adjusted expense-to-revenue ratio excludes non-recurring expenses, goodwill and other valuation intangibles from expenses and non-recurring revenues from total revenue.

NA – Not available.

Table 9 Net Loans and Acceptances – Segmented Information *($ millions)*

	Canada *(a)*					United States *(a)*					Mexico *(a)*				
As at October 31	**1997**	1996	1995	1994	1993	**1997**	1996	1995	1994	1993	**1997**	1996	1995	1994	1993
Individuals															
Residential mortgages *(b)*	**30,995**	26,539	23,412	21,588	19,073	**2,594**	1,926	1,490	1,118	915	**0**	0	0	0	0
Cards	**877**	2,528	2,357	2,133	2,061	**1,035**	1,314	1,482	1,128	835	**0**	0	0	0	0
Personal Loans	**12,007**	10,739	10,365	9,763	8,461	**2,664**	2,058	1,388	1,228	910	**0**	0	0	0	0
Total loans to individuals	**43,879**	39,806	36,134	33,484	29,595	**6,293**	5,298	4,360	3,474	2,660	**0**	0	0	0	0
Commercial, corporate and institutional															
Diversified commercial	**26,152**	23,326	23,657	23,095	21,758	**23,497**	19,075	17,132	16,405	14,592	**433**	485	430	489	290
Securities purchased under resale agreements	**7,679**	6,960	4,772	5,265	2,245	**10,721**	7,121	5,733	9,307	5,413	**0**	0	0	0	0
Total commercial, corporate and institutional	**33,831**	30,286	28,429	28,360	24,003	**34,218**	26,196	22,865	25,712	20,005	**433**	485	430	489	290
General allowance	**(625)**	(425)	(275)	(150)	(100)	**(150)**	(50)	(50)	(50)	0	**0**	0	0	0	0
Designated lesser developed countries	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Total net loans and acceptances	**77,085**	69,667	64,288	61,694	53,498	**40,361**	31,444	27,175	29,136	22,665	**433**	485	430	489	290

Table 10 Allowance for Credit Losses – Segmented Information *($ millions except as noted)*

	Canada *(a)*					United States *(a)*					Mexico *(a)*				
As at October 31	**1997**	1996	1995	1994	1993	**1997**	1996	1995	1994	1993	**1997**	1996	1995	1994	1993
Allowance for credit losses (ACL), beginning of year	**737**	590	653	843	651	**290**	298	359	483	476	**0**	0	0	0	1
Provision for credit losses	**330**	156	171	276	417	**(55)**	69	104	238	259	**0**	0	0	0	(1)
Transfer of allowance	**0**	150	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Recoveries	**43**	15	15	18	27	**115**	88	37	56	31	**0**	0	0	0	0
Write-offs *(e)*	**(216)**	(174)	(255)	(488)	(260)	**(118)**	(170)	(195)	(456)	(313)	**0**	0	0	0	0
Other, including foreign exchange	**1**	0	6	4	8	**14**	5	(7)	38	30	**0**	0	0	0	0
ACL, end of year	**895**	737	590	653	843	**246**	290	298	359	483	**0**	0	0	0	0
Allocation of Write-offs by Market															
Individuals	**(106)**	(90)	(74)	(74)	(100)	**(96)**	(60)	(50)	(45)	(49)	**0**	0	0	0	0
Commercial, corporate and institutional	**(110)**	(84)	(181)	(414)	(160)	**(22)**	(110)	(145)	(411)	(264)	**0**	0	0	0	0
Designated lesser developed countries (LDC)	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Allocation of Recoveries by Market															
Individuals	**11**	15	17	22	23	**10**	11	14	14	13	**0**	0	0	0	0
Commercial, corporate and institutional	**32**	0	(2)	(4)	4	**105**	77	23	42	18	**0**	0	0	0	0
Designated LDC	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Net write-offs as a % of average loans and acceptances															

(a) Geographic location is based on the ultimate risk of the underlying asset. Provincial location is based on the booking location and/or customer residency.

(b) Excludes residential mortgages classified as commercial corporate loans (1997 – $2.0 billion, 1996 – $1.6 billion, 1995 – $1.5 billion, 1994 – $1.5 billion, 1993 – $1.3 billion).

(c) No provision for securities purchased under resale agreements.

(d) Excludes the general allowance.

(e) Write-offs on designated lesser developed countries include losses on sales of performing assets that were charged directly against the allowance (1997 – $3 million, 1996 – $109 million, 1995 – $115 million, 1994 – $0, 1993 – $65 million).

	Other countries *(a)*					Total				
	1997	1996	1995	1994	1993	**1997**	1996	1995	1994	1993
	0	0	0	0	0	**33,589**	28,465	24,902	22,706	19,988
	0	0	0	0	0	**1,912**	3,842	3,839	3,261	2,896
	0	0	3	4	4	**14,671**	12,797	11,756	10,995	9,375
	0	0	3	4	4	**50,172**	45,104	40,497	36,962	32,259
	2,665	1,453	1,272	950	1,000	**52,747**	44,339	42,491	40,939	37,640
	117	0	0	0	0	**18,517**	14,081	10,505	14,572	7,658
	2,782	1,453	1,272	950	1,000	**71,264**	58,420	52,996	55,511	45,298
	0	0	0	0	0	**(775)**	(475)	(325)	(200)	(100)
	263	211	230	370	314	**263**	211	230	370	314
	3,045	1,664	1,505	1,324	1,318	**120,924**	103,260	93,398	92,643	77,771

As at October 31	**1997**	1996	1995	1994	1993
Net Loans and Acceptances in Canada by Province *(a)*					
Atlantic Provinces	**3,815**	3,466	3,304	3,175	2,693
Quebec	**10,179**	10,237	10,610	9,523	9,022
Ontario	**38,456**	35,240	30,971	31,106	26,013
Prairie Provinces	**13,133**	10,174	9,628	8,091	7,457
British Columbia and Territories	**12,127**	10,975	10,050	9,949	8,413
Total loans and acceptances in Canada *(d)*	**77,710**	70,092	64,563	61,844	53,598
Diversified Commercial by Industry					
Financial institutions	**8,854**	8,620	7,217	7,446	4,315
Commercial mortgages	**4,552**	3,542	3,378	3,570	3,142
Construction (non-real estate)	**1,011**	949	886	754	591
Commercial real estate	**3,034**	2,737	3,404	4,474	5,912
Manufacturing	**9,267**	7,163	7,064	5,697	5,345
Mining/Energy	**4,058**	3,003	2,431	2,079	1,896
Service industries	**6,407**	5,667	5,401	4,512	3,470
Retail trade	**2,752**	2,319	2,574	2,637	2,572
Wholesale trade	**3,408**	2,739	2,565	2,220	2,316
Agriculture	**2,036**	1,719	1,910	1,731	1,582
Transportation/Utilities	**3,227**	2,338	2,031	2,404	2,114
Communications	**2,332**	2,368	2,013	1,626	1,217
Other	**1,809**	1,175	1,617	1,789	3,168
Total diversified commercial	**52,747**	44,339	42,491	40,939	37,640

	Other countries *(a)*					Total				
	1997	1996	1995	1994	1993	**1997**	1996	1995	1994	1993
	116	367	484	673	942	**1,143**	1,255	1,496	1,999	2,070
	0	0	0	(4)	0	**275**	225	275	510	675
	0	(150)	0	0	0	**0**	0	0	0	0
	0	0	0	1	1	**158**	103	52	75	59
	(23)	(105)	(115)	(203)	(315)	**(357)**	(449)	(565)	(1,147)	(888)
	5	4	(2)	17	45	**20**	9	(3)	59	83
	98	116	367	484	673	**1,239**	1,143	1,255	1,496	1,999
	0	0	0	0	0	**(202)**	(150)	(124)	(119)	(149)
	0	0	0	0	0	**(132)**	(194)	(326)	(825)	(424)
	(23)	(105)	(115)	(203)	(315)	**(23)**	(105)	(115)	(203)	(315)
	0	0	0	0	0	**21**	26	31	36	36
	0	0	0	0	0	**137**	77	21	38	22
	0	0	0	1	1	**0**	0	0	1	1
						0.2	0.3	0.6	1.3	1.1

Provision for Credit Losses – Segmented Information

($ millions)

For the year ended October 31	**1997**	1996	1995	1994	1993
Individuals					
Residential mortgages	**7**	6	3	5	5
Cards	**138**	96	67	61	73
Personal loans	**32**	23	26	23	35
Total individuals	**177**	125	96	89	113
Diversified commercial *(c)*					
Financial institutions	**(26)**	62	2	7	7
Commercial mortgages	**1**	5	2	12	4
Construction (non-real estate)	**0**	3	2	16	8
Commercial real estate	**(146)**	(61)	17	320	375
Manufacturing	**8**	20	(2)	(22)	106
Mining/Energy	**(24)**	(18)	17	(10)	(11)
Service industries	**19**	43	13	6	9
Retail trade	**0**	9	(10)	(3)	41
Wholesale trade	**7**	8	1	30	6
Agriculture	**7**	3	0	(3)	6
Transportation/Utilities	**(11)**	16	(4)	1	0
Communications	**36**	0	(2)	(2)	(4)
Other	**27**	10	18	20	16
Total commercial, corporate and institutional	**(102)**	100	54	372	563
Net charge to earnings for general provision	**200**	0	125	50	0
Designated lesser developed countries	**0**	0	0	(1)	(1)
Total provision for credit losses (PCL)	**275**	225	275	510	675

Table 11 Allocation of Allowance for Credit Losses – Segmented Information *($ millions except as noted)*

	Canada *(a)*					United States *(a)*					Mexico *(a)*				
As at October 31	**1997**	1996	1995	1994	1993	**1997**	1996	1995	1994	1993	**1997**	1996	1995	1994	1993
Individuals															
Residential mortgages	**9**	9	6	6	5	**0**	0	0	0	0	**0**	0	0	0	0
Cards	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Personal loans	**5**	9	8	10	12	**6**	6	9	8	13	**0**	0	0	0	0
Total individuals	**14**	18	14	16	17	**6**	6	9	8	13	**0**	0	0	0	0
Diversified commercial *(b)*	**255**	292	301	487	724	**90**	234	239	301	459	**0**	0	0	0	0
General allowance	**625**	425	275	150	100	**150**	50	50	50	0	**0**	0	0	0	0
Designated lesser developed countries (LDC)															
Specific allowance	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Country risk allowance	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Off-balance sheet	**1**	2	0	0	2	**0**	0	0	0	11	**0**	0	0	0	0
Allowance for credit losses (ACL)	**895**	737	590	653	843	**246**	290	298	359	483	**0**	0	0	0	0
Coverage Ratios															
ACL as a % of gross impaired loans and acceptances (GIL)	**169.3**	91.9	78.2	57.3	48.3	**96.9**	49.2	30.8	28.8	29.4	**0.0**	0.0	0.0	0.0	0.0
ACL as a % of GIL *(c)*															
Individuals	**10.8**	10.8	12.5	16.0	16.3	**100.0**	100.0	100.0	100.0	76.5	**0.0**	0.0	0.0	0.0	0.0
Diversified commercial	**64.1**	46.1	46.9	46.8	44.3	**36.3**	40.1	24.9	24.3	28.9	**0.0**	0.0	0.0	0.0	0.0
Designated LDC *(d)*	**na**	na	na	na	na	**na**	na	na	na	na	**na**	na	na	na	na

Table 12 Net Impaired Loans (NIL) and Acceptances – Segmented Information *($ millions except as noted)*

	Canada *(a)*					United States *(a)*					Mexico *(a)*				
As at October 31	**1997**	1996	1995	1994	1993	**1997**	1996	1995	1994	1993	**1997**	1996	1995	1994	1993
Individuals															
Residential mortgages	**94**	122	66	45	49	**0**	0	0	0	0	**0**	0	0	0	0
Cards	**3**	5	4	11	3	**0**	0	0	0	0	**0**	0	0	0	0
Personal loans	**19**	22	28	28	35	**0**	0	0	0	4	**0**	0	0	0	0
Total individuals	**116**	149	98	84	87	**0**	0	0	0	4	**0**	0	0	0	0
Diversified commercial *(b)*	**143**	341	341	553	912	**158**	349	721	939	1,128	**0**	0	0	0	0
General allowance	**(625)**	(425)	(275)	(150)	(100)	**(150)**	(50)	(50)	(50)	0	**0**	0	0	0	0
Designated lesser developed countries (LDC)	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Total net impaired loans and acceptances (NIL)	**(366)**	65	164	487	899	**8**	299	671	889	1,132	**0**	0	0	0	0
Condition Ratios															
Gross impaired loans and acceptances (GIL) as a % of equity and allowance for credit losses	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA
NIL as a % of net loans and acceptances	**(0.47)**	0.09	0.26	0.79	1.68	**0.02**	0.95	2.47	3.05	4.99	**0.00**	0.00	0.00	0.00	0.00
NIL as a % of net loans and acceptances *(e)*															
Individuals	**0.26**	0.37	0.27	0.25	0.29	**0.00**	0.00	0.00	0.00	0.15	**0.00**	0.00	0.00	0.00	0.00
Diversified commercial	**0.55**	1.46	1.44	2.39	4.19	**0.67**	1.82	4.21	5.72	7.73	**0.00**	0.00	0.00	0.00	0.00
Designated LDC	**0.00**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00

(a) Geographic location is based on the ultimate risk of the underlying asset.
(b) No allowance or impaired exposure for securities purchased under resale agreements.
(c) Segment ACL as a percentage of segment GIL.
(d) Excludes LDC reservations in excess of impaired loans (1997 – $93 million, 1996 – $108 million, 1995 – $360 million, 1994 – $425 million, 1993 – $0).
(e) Segment NIL as a percentage of segment net loans and acceptances.
(f) Includes allowance of U.S. subsidiary in excess of impaired loans.
na – Not applicable.
NA – Not available.

Other countries *(a)*					Total				
1997	1996	1995	1994	1993	**1997**	1996	1995	1994	1993
0	0	0	0	0	**9**	9	6	6	5
0	0	0	0	0	**0**	0	0	0	0
0	0	0	0	0	**11**	15	17	18	25
0	0	0	0	0	**20**	24	23	24	30
0	0	0	0	9	**345**	526	540	788	1,192
0	0	0	0	0	**775**	475	325	200	100
0	1	0	0	0	**0**	1	0	0	0
98	115	367	484	664	**98**	115	367	484	664
0	0	0	0	0	**1**	2	0	0	13
98	116	367	484	673	**1,239**	1,143	1,255	1,496	1,999
100.0	100.0	100.0	100.0	74.4	**157.2**	81.7	72.5	61.1	46.7
0.0	0.0	0.0	0.0	0.0	**14.7**	13.9	19.0	22.0	24.8
0.0	0.0	0.0	0.0	52.9	**53.4**	43.2	33.7	34.6	36.8
100.0	100.0	100.0	100.0	74.8	**100.0**	100.0	100.0	100.0	74.8

As at October 31	**1997**	1996	1995	1994	1993
Diversified Commercial Specific Allowance by Industry					
Financial institutions	**28**	62	24	29	32
Commercial mortgages	**6**	11	17	20	14
Construction (non-real estate)	**23**	6	11	27	21
Commercial real estate	**71**	148	274	393	600
Manufacturing	**44**	34	19	75	162
Mining/Energy	**8**	22	45	84	156
Service industries	**56**	57	45	31	20
Retail trade	**19**	33	23	69	120
Wholesale trade	**12**	10	7	24	17
Agriculture	**12**	5	2	13	18
Transportation/Utilities	**8**	18	7	19	22
Communications	**15**	0	0	0	2
Other	**43**	120	66	4	8
Total diversified commercial specific allowance *(b)*	**345**	526	540	788	1,192

Other countries *(a)*					Total				
1997	1996	1995	1994	1993	**1997**	1996	1995	1994	1993
0	0	0	0	0	**94**	122	66	45	49
0	0	0	0	0	**3**	5	4	11	3
0	0	0	0	0	**19**	22	28	28	39
0	0	0	0	0	**116**	149	98	84	91
0	0	0	0	8	**301**	690	1,062	1,492	2,048
0	0	0	0	0	**(775)**	(475)	(325)	(200)	(100)
0	0	0	0	224	**0**	0	0	0	224
0	0	0	0	232	**(358)**	364	835	1,376	2,263
NA	NA	NA	NA	NA	**7.65**	15.71	20.48	29.86	54.84
0.00	0.00	0.00	0.00	17.60	**(0.30)**	0.35	0.89	1.49	2.91
0.00	0.00	0.00	0.00	0.00	**0.23**	0.33	0.24	0.23	0.28
0.00	0.00	0.00	0.00	0.80	**0.57**	1.56	2.50	3.64	5.44
0.00	0.00	0.00	0.00	71.34	**0.00**	0.00	0.00	0.00	71.34

As at October 31	**1997**	1996	1995	1994	1993
Diversified Commercial Net Impaired Loans by Industry					
Financial institutions	**1**	59	1	5	31
Commercial mortgages	**24**	39	50	51	37
Construction (non-real estate)	**6**	3	2	3	18
Commercial real estate	**148**	463	846	1,003	1,432
Manufacturing	**19**	21	27	104	56
Mining/Energy	**30**	37	67	143	145
Service industries	**44**	40	33	20	33
Retail trade	**9**	30	17	100	113
Wholesale trade	**9**	38	22	8	73
Agriculture	**12**	18	23	28	36
Transportation/Utilities	**11**	35	23	25	56
Communications	**5**	1	0	0	16
Other *(d) (f)*	**(17)**	(94)	(49)	2	2
Total diversified commercial *(b)*	**301**	690	1,062	1,492	2,048

Supplemental Information Continued

Table 13 Impaired Loans and Acceptances by Accounting Classification *($ millions)*

As at or for the year ended October 31	**1997**	1996	1995	1994	1993
Gross impaired loans and acceptances, beginning of year	**1,397**	1,730	2,447	4,249	4,232
Additions to impaired loans and acceptances	**660**	959	806	1,267	1,587
Reductions in impaired loans and acceptances *(a)*	**(936)**	(948)	(1,073)	(1,922)	(747)
Net new additions (reductions)	**(276)**	11	(267)	(655)	840
Write-offs	**(334)**	(344)	(450)	(1,147)	(823)
Gross impaired loans and acceptances, end of year	**787**	1,397	1,730	2,447	4,249
Allowance for credit losses (ACL) *(c)*, beginning of year	**1,033**	895	1,071	1,986	2,059
Increases – specific allowance	**169**	437	264	132	815
Increases – general allowance	**200**	0	125	50	0
Transfer of allowance	**100**	150	0	50	0
Write-offs *(b)*	**(357)**	(449)	(565)	(1,147)	(888)
Allowance for credit losses *(c)*, end of year	**1,145**	1,033	895	1,071	1,986
Net impaired loans and acceptances (NIL), beginning of year	**364**	835	1,376	2,263	2,173
Change in gross impaired loans and acceptances	**(610)**	(333)	(717)	(1,802)	17
Change in allowance for credit losses	**(112)**	(138)	176	915	73
Net impaired loans and acceptances, end of year	**(358)**	364	835	1,376	2,263

Table 14 Balance Sheet Summary *($ millions except as noted)*

As at October 31	**1997**	1996	1995	1994	1993	1992	1991	1990	1989	1988
Assets										
Cash resources	**32,245**	24,187	20,317	14,659	12,081	11,288	13,607	12,502	8,581	10,170
Securities	**41,789**	36,609	33,019	26,535	23,328	22,581	17,862	12,238	9,761	9,946
Loans (net)	**114,918**	98,413	88,442	88,634	74,028	68,251	60,172	55,106	54,303	51,986
Acceptances	**5,594**	4,397	4,469	3,430	3,555	2,878	3,712	3,508	2,778	3,584
Other assets	**13,292**	6,226	5,587	4,917	3,877	4,037	3,372	4,016	3,498	3,223
Total assets	**207,838**	169,832	151,834	138,175	116,869	109,035	98,725	87,370	78,921	78,909
Liabilities and Shareholders' Equity										
Deposits	**144,212**	119,262	109,605	98,241	87,859	86,601	77,769	70,170	62,985	64,362
Other liabilities	**50,892**	39,670	32,602	31,178	20,961	15,604	14,836	11,801	10,860	9,456
Subordinated debt	**3,831**	3,314	2,595	2,218	2,363	1,666	1,570	1,473	1,329	1,307
Share capital										
Preferred	**1,274**	857	858	860	852	832	718	475	650	450
Common	**3,019**	2,989	3,002	3,002	2,632	2,539	2,416	2,276	2,162	2,048
Retained earnings	**4,610**	3,740	3,172	2,676	2,202	1,793	1,416	1,175	935	1,286
Total liabilities and shareholders' equity	**207,838**	169,832	151,834	138,175	116,869	109,035	98,725	87,370	78,921	78,909
Average Balances										
Loans *(d)*	**113,136**	94,598	87,028	77,292	73,918	66,469	58,227	53,793	53,110	52,538
Assets *(d)*	**196,721**	158,316	144,115	122,234	113,387	104,591	94,118	81,971	78,878	79,312

Table 15 Unrealized Gains on Securities and Reserves *(e) ($ millions)*

As at October 31	**1997**	1996	1995	1994	1993
Securities					
Designated LDC	**43**	91	200	247	35
Other securities	**293**	148	156	(74)	369
Associated corporation (Grupo Financiero Bancomer)	**118**	132	na	na	na
	454	371	356	173	404
General allowance for credit losses	**775**	475	325	200	100
Fair value of past due interest bonds	**57**	100	95	101	0
Loans to designated LDC	**2**	4	4	(12)	134
	834	579	424	289	234
Total	**1,288**	950	780	462	638

(a) Loans and acceptances returning to performing status, sales and repayments.
(b) Write-offs on designated LDC include losses on sales of performing assets that were charged directly against the allowance (1997 – $3 million, 1996 – $109 million, 1995 – $115 million, 1994 – $0, 1993 – $65 million).
(c) Excludes ACL for off-balance sheet exposure. Also excludes LDC reservations in excess of impaired loans (1997 – $93 million, 1996 – $108 million, 1995 – $360 million, 1994 – $425 million, 1993 – $0).
(d) Daily averages for 1990 to 1997.
(e) Securities and LDC loans.
na – Not applicable.

Table 16 Risk-Weighted Assets *($ millions except as noted)*

As at October 31	Balance	Credit risk equivalent	Risk weighting %	1997 Risk-weighted balance	1996 Risk-weighted balance
Balance sheet items					
Cash resources	**32,245**		**0–20**	**6,149**	4,550
Securities	**41,789**		**0–100**	**12,345**	6,777
Mortgages	**38,141**		**0–100**	**11,821**	13,527
Other loans and acceptances	**82,371**		**0–100**	**60,670**	52,668
Other assets	**13,292**		**0–100**	**5,893**	5,124
Total balance sheet items	**207,838**			**96,878**	82,646
Off-balance sheet items					
Guarantees and standby letters of credit	**10,562**	**8,989**	**0–100**	**7,468**	6,713
Securities lending	**13,547**	**3,874**	**0–100**	**1,454**	1,033
Documentary and commercial letters of credit	**1,637**	**327**	**0–100**	**290**	187
Commitments to extend credit:					
Original maturity of one year and under	**39,474**	**0**	**0**	**0**	0
Original maturity of over one year	**32,813**	**16,407**	**0–100**	**15,959**	13,108
Derivative financial instruments	**714,902**	**8,007**	**0–50**	**2,299**	2,563
Note issuance and revolving underwriting facilities	**0**	**0**	**0–50**	**0**	17
Total off-balance sheet items	**812,935**			**27,470**	23,621
Total risk-weighted assets				**124,348**	106,267
Total risk-weighted assets – U.S. basis				**128,826**	107,994

Table 17 Liquid Assets *($ millions except as noted)*

As at October 31	**1997**	1996	1995	1994	1993	1992	1991	1990	1989	1988
Canadian Dollar Liquid Assets										
Deposits with other banks	**3,110**	2,839	3,002	2,790	1,762	1,394	1,762	3,126	2,259	1,364
Other cash resources	**702**	631	17	651	734	967	1,494	849	1,361	1,278
Securities	**22,442**	22,651	21,245	16,915	16,436	15,251	11,725	6,278	5,083	5,820
Total Canadian dollar liquid assets	**26,254**	26,121	24,264	20,356	18,932	17,612	14,981	10,253	8,703	8,462
U.S. Dollar and Other Currencies Liquid Assets										
Deposits with other banks	**26,946**	18,606	16,418	11,029	8,476	8,120	9,327	7,688	4,327	6,786
Other cash resources	**1,487**	2,111	880	189	1,109	807	1,024	839	634	742
Securities	**19,347**	13,958	11,774	9,620	6,892	7,330	6,137	5,960	4,678	4,126
Total U.S. dollar and other currencies liquid assets	**47,780**	34,675	29,072	20,838	16,477	16,257	16,488	14,487	9,639	11,654
Total liquid assets	**74,034**	60,796	53,336	41,194	35,409	33,869	31,469	24,740	18,342	20,116
Total liquid assets-to-total assets *(%)*	**35.6**	35.8	35.1	29.8	30.3	31.1	31.9	28.3	23.3	25.5

Table 18 Deposits *($ millions)*

As at October 31	**1997**	1996	1995	1994	1993	1992	1991	1990	1989	1988
Canadian Dollar Deposits										
Banks	**3,200**	3,566	2,652	3,074	3,117	2,303	2,127	1,462	1,208	1,268
Businesses and governments	**25,273**	14,607	13,862	12,311	10,109	12,090	9,342	7,939	7,699	8,187
Individuals	**44,170**	44,361	43,156	40,617	39,230	37,503	35,488	33,066	30,500	27,312
Total Canadian dollar deposits	**72,643**	62,534	59,670	56,002	52,456	51,896	46,957	42,467	39,407	36,767
U.S. Dollar and Other Currencies Deposits										
Banks	**28,072**	21,174	21,357	19,227	17,690	16,519	12,200	12,126	9,236	9,125
Businesses and governments	**29,628**	22,867	20,964	16,430	12,566	13,285	13,789	10,802	9,974	14,162
Individuals	**13,869**	12,687	7,614	6,582	5,147	4,901	4,823	4,775	4,368	4,308
Total U.S. dollar and other currencies deposits	**71,569**	56,728	49,935	42,239	35,403	34,705	30,812	27,703	23,578	27,595
Total deposits	**144,212**	119,262	109,605	98,241	87,859	86,601	77,769	70,170	62,985	64,362

Table 19 Quarterly Financial Data *($ millions)*

As at or for the three months ended	Oct. 31 1997	July 31 1997	April 30 1997	Jan. 31 1997	Oct. 31* 1996	July 31* 1996	April 30* 1996	Jan. 31* 1996
Balance Sheet Data								
Total assets	207,838	198,209	200,423	185,872	169,832	162,546	155,000	150,022
Cash resources	32,245	28,252	28,996	24,032	24,187	21,252	21,387	19,813
Securities	41,789	39,410	36,985	38,081	36,609	34,547	31,351	30,779
Loans (net)	114,918	112,068	115,345	105,026	98,413	96,284	92,667	89,595
Acceptances	5,594	5,117	4,717	4,141	4,397	4,366	4,073	4,116
Other assets	13,292	13,362	14,380	14,592	6,226	6,097	5,522	5,719
Deposits	144,212	136,485	136,942	125,992	119,262	118,108	113,697	110,156
Total capital funds	12,734	12,057	12,396	11,679	10,900	10,826	10,233	10,102
Common equity	7,629	7,432	7,202	6,948	6,729	6,610	6,484	6,338
Average assets *(a)*	204,819	203,366	196,470	182,220	166,141	161,190	154,446	151,402
Net Income Statement								
Interest, dividend and fee income								
Loans	2,110	2,108	1,962	1,878	1,804	1,853	1,810	1,909
Securities	581	522	517	524	545	522	492	565
Deposits with banks	378	360	317	277	248	251	247	238
Total interest income	3,069	2,990	2,796	2,679	2,597	2,626	2,549	2,712
Interest expense								
Deposits	1,377	1,376	1,261	1,194	1,181	1,305	1,280	1,368
Subordinated debt	72	74	75	72	68	64	57	57
Other liabilities	557	514	456	429	414	374	347	366
Total interest expense	2,006	1,964	1,792	1,695	1,663	1,743	1,684	1,791
Net interest income	1,063	1,026	1,004	984	934	883	865	921
Provision for credit losses (PCL)	69	68	69	69	44	43	69	69
Net interest income after PCL	994	958	935	915	890	840	796	852
Other income	771	811	702	697	645	631	644	596
Non-interest expense	1,269	1,147	1,117	1,080	1,077	977	962	933
Income before provision for income taxes	496	622	520	532	458	494	478	515
Provision for income taxes	192	244	200	204	162	189	191	215
Income before non-controlling interest in subsidiary	304	378	320	328	296	305	287	300
Non-controlling interest in subsidiary	7	6	6	6	5	5	6	4
Net income	297	372	314	322	291	300	281	296
Taxable equivalent adjustment *(b)*	28	28	28	25	31	28	26	23
Total revenue (TEB)	1,862	1,865	1,734	1,706	1,610	1,542	1,535	1,540

**Reclassified to conform with the current year's presentation.*

(a) Daily averages.

(b) The taxable equivalent (TEB) adjustment increases interest income on tax-efficient assets to the amount that would result if the income were fully taxable (and increases the tax provision by the same amount). This adjustment results in a better reflection of the pre-tax economic yield of these assets.

Table 20 Quarterly Financial Measures

As at or for the three months ended	Oct. 31 1997	July 31 1997	April 30 1997	Jan. 31 1997	Oct. 31 1996	July 31 1996	April 30 1996	Jan. 31 1996
Information per Common Share *($)*								
Dividends declared	0.44	0.40	0.40	0.40	0.40	0.36	0.36	0.36
Earnings								
Basic	1.05	1.34	1.13	1.17	1.06	1.09	1.00	1.06
Cash EPS *(a)*	1.12	1.41	1.20	1.24	1.13	1.14	1.06	1.11
Fully diluted	1.04	1.31	1.11	1.16	1.04	1.07	0.98	1.04
Book value	29.18	28.54	27.66	26.71	25.89	25.52	24.82	24.16
Market price								
High	61.600	58.200	55.800	46.750	41.650	34.150	33.750	33.750
Low	51.900	50.500	45.400	39.050	32.750	31.950	30.375	29.375
Close	60.850	57.450	50.700	46.600	40.550	32.750	32.700	33.250
Common stock information								
Number of common shares outstanding *(thousands)*:								
as at	261,436	260,439	260,361	260,162	259,937	259,020	261,189	262,373
average – basic	260,916	260,415	260,253	260,050	259,395	260,071	262,116	263,368
– fully diluted	268,801	268,809	268,765	267,621	266,180	267,247	269,382	270,782
Price-to-earnings ratio *(%)*	13.0	12.2	11.4	10.8	9.6	8.0	8.3	8.9
Market-to-book value ratio *(%)*	2.09	2.01	1.83	1.74	1.57	1.28	1.32	1.38
Number of shareholders	53,651	54,238	54,746	55,261	55,571	55,885	56,217	56,760
Primary Financial Measures *(%)*								
Five-year return on common shareholders' investment *(%) (b)*	26.1	24.3	23.7	21.0	22.2	17.8	17.7	21.4
Return on common shareholders' equity *(c)*	14.5	19.1	17.2	17.7	16.3	17.3	16.8	17.7
Fully diluted earnings per share growth *(d)*	0.0	22.4	13.3	11.5	11.8	17.6	28.9	33.3
Revenue growth	15.7	20.9	12.9	10.8	9.8	3.2	13.1	14.2
Expense-to-revenue ratio *(e)*	68.2	61.5	64.4	63.3	66.9	63.3	62.7	60.6
Provision for credit losses as a % of average loans and acceptances *(f)*	0.22	0.22	0.23	0.25	0.22	0.22	0.28	0.29
Gross impaired loans and acceptances as a % of equity and allowances for credit losses *(g)*	7.65	8.86	11.46	13.33	15.71	17.27	18.86	16.72
Tier 1 capital ratio *(h)*	6.80	6.96	6.71	6.58	6.71	6.76	7.10	7.13
Cash and securities-to-total assets *(i)*	35.6	34.1	32.9	33.4	35.8	34.3	34.0	33.7
Credit rating *(j)*	AA-	AA-	AA-	AA-	AA-	AA-	AA-	AA-
Other Financial Ratios *(%)*								
Return on average total equity *(k)*	13.4	17.3	16.0	16.6	15.3	16.2	15.8	16.5
Return on common shareholders' investment *(l)*	55.0	46.3	29.3	19.1	42.4	15.0	14.9	16.6
Return on average assets	0.58	0.72	0.66	0.70	0.70	0.74	0.74	0.78
Return on average assets available to common shareholders	0.53	0.68	0.62	0.66	0.65	0.70	0.69	0.73
Net income growth	2.3	23.7	11.9	8.8	7.8	14.1	24.9	29.5
Cash ROE *(m)*	16.9	22.1	20.3	20.9	19.5	19.8	19.3	20.4
Expense growth	17.9	17.5	16.0	15.8	15.8	(0.2)	10.5	7.8
Net impaired loans as a % of net loans and acceptances	(0.30)	(0.22)	0.00	0.13	0.35	0.48	0.74	0.57
Total capital ratio*	9.66	9.34	9.05	9.07	9.11	9.00	9.34	9.77
Equity-to-assets ratio	4.4	4.5	4.3	4.3	4.6	4.7	4.8	4.9

**As at July 31, 1997, October 31, 1996, and April 30, 1996, the capital ratios reflect the inclusion of $450 million Series A medium-term notes issued on August 25, 1997, $300 million Series 23 debentures issued on November 1, 1996 and $300 million Series 21 debentures issued on May 9, 1996, respectively. Excluding these issues, the total capital ratio as at July 31, 1997, October 31, 1996, and April 30, 1996 would be 8.96%, 8.83% and 9.04%, respectively, on a Canadian basis and 9.63%, 9.53% and 10.03%, respectively, on a U.S. basis.*

(a) Cash EPS is earnings per share as reported adjusted for the after-tax impact on earnings of non-cash goodwill and other valuation intangibles.

(b) Five-year compounded return for one bank common share invested at the beginning of the period, including dividend reinvestment.

(c) Net income less preferred dividends divided by average common shareholders' equity (which includes common share capital plus retained earnings).

(d) Percentage change in fully diluted earnings per share for the quarter over the corresponding quarter of the previous year.

(e) Non-interest expense divided by total revenue (TEB).

(f) Annual provision for credit losses divided by average net loans, acceptances and loan substitutes.

(g) Gross impaired loans divided by total equity and allowance for credit losses.

(h) Tier 1 capital divided by risk-weighted assets as defined by the Superintendent of Financial Institutions Canada.

(i) Cash and securities divided by total assets.

(j) Composite of Moody's and Standard & Poor's debt ratings.

(k) Annualized quarterly net income divided by average total equity.

(l) Annual compounded return for one bank common share invested at the beginning of the period, including dividend reinvestment.

(m) Cash ROE is return on common shareholders' equity as reported adjusted for the after tax impact on earnings and common shareholders' equity of non-cash goodwill and other valuation intangibles.

In the opinion of Bank of Montreal management, information that is derived from unaudited financial information, including information as at and for the interim periods, contains all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and such ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

This section of the Annual Report presents our Consolidated Financial Statements for the year ended October 31, 1997, Statement of Management's Responsibility for Financial Information and Shareholders' Auditors' Report.

Consolidated Financial Statements

The audited Financial Statements present our financial condition as at October 31, 1997 and 1996 and results of our operations for the years ended October 31, 1997, 1996 and 1995. The accompanying Notes to Consolidated Financial Statements provide further financial detail and include the significant accounting policies underlying the financial information reported.

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Consolidated Balance Sheet

As at October 31 *(Canadian $ in millions)*	1997	1996
Assets		
Cash Resources *(note 2)*	$ 32,245	$ 24,187
Securities *(notes 3 & 5)*		
Investment (market value $19,023 in 1997 and $17,556 in 1996)	18,569	17,185
Trading	22,857	19,044
Loan substitutes	363	380
	41,789	36,609
Loans *(notes 4, 5 & 16)*		
Residential mortgages	35,555	30,086
Consumer instalment and other personal loans	14,682	12,812
Credit card loans	1,912	3,842
Loans to businesses and governments	45,397	38,625
Securities purchased under resale agreements	18,517	14,081
	116,063	99,446
Allowance for credit losses	(1,145)	(1,033)
	114,918	98,413
Other		
Customers' liability under acceptances	5,594	4,397
Premises and equipment *(note 6)*	2,058	1,867
Other assets *(note 7)*	11,234	4,359
	18,886	10,623
Total Assets	$ 207,838	$ 169,832
Liabilities and Shareholders' Equity		
Deposits *(note 9)*		
Banks	$ 31,272	$ 24,740
Businesses and governments	54,901	37,474
Individuals	58,039	57,048
	144,212	119,262
Other Liabilities *(note 10)*		
Acceptances	5,594	4,397
Securities sold but not yet purchased	10,304	13,716
Securities sold under repurchase agreements	21,389	15,523
Other	13,605	6,034
	50,892	39,670
Subordinated Debt *(note 11)*	3,831	3,314
Shareholders' Equity		
Share capital *(note 12)*	4,293	3,846
Retained earnings	4,610	3,740
	8,903	7,586
Total Liabilities and Shareholders' Equity	$ 207,838	$ 169,832

The accompanying notes to consolidated financial statements are an integral part of this statement.

Matthew W. Barrett
Chairman and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Consolidated Statement of Income

For the Year Ended October 31 *(Canadian $ in millions except per share amounts)*	1997	1996	1995
Interest, Dividend and Fee Income			
Loans	$ 8,058	$ 7,376	$ 7,364
Securities *(note 3)*	2,144	2,124	1,763
Deposits with banks	1,332	984	857
	11,534	10,484	9,984
Interest Expense			
Deposits	5,208	5,134	5,397
Subordinated debt	293	246	206
Other liabilities	1,956	1,501	901
	7,457	6,881	6,504
Net Interest Income	4,077	3,603	3,480
Provision for credit losses	275	225	275
Net Interest Income After Provision for Credit Losses	3,802	3,378	3,205
Other Income			
Deposit and payment service charges	508	473	451
Lending fees	240	194	186
Capital market fees	919	760	495
Card services	283	234	230
Investment management and custodial fees	299	221	240
Mutual fund revenues	155	87	53
Trading revenues	276	277	225
Other fees and commissions	301	270	222
	2,981	2,516	2,102
Net Interest and Other Income	6,783	5,894	5,307
Non-Interest Expense			
Salaries and employee benefits	2,535	2,210	1,999
Premises and equipment	916	727	679
Communications	246	219	208
Other expenses	842	739	651
	4,539	3,895	3,537
Goodwill and other valuation intangibles	74	54	49
Business process improvement initiative charge	–	–	60
Total non-interest expense	4,613	3,949	3,646
Income Before Provision for Income Taxes	2,170	1,945	1,661
Provision for income taxes *(note 13)*	840	757	662
Income Before Non-Controlling Interest in Subsidiary	1,330	1,188	999
Non-controlling interest	25	20	13
Net Income	$ 1,305	$ 1,168	$ 986
Preferred dividends	$ 83	$ 69	$ 69
Net income available to common shareholders	$ 1,222	$ 1,099	$ 917
Average common shares outstanding *(in thousands)*	260,410	261,233	265,632
Net Income Per Common Share *(note 14)*			
Basic	$ 4.69	$ 4.21	$ 3.45
Fully diluted	4.62	4.13	3.38
Dividends Per Common Share	1.64	1.48	1.32

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31 *(Canadian $ in millions)*				**1997**	1996	1995
Preferred Shares *(note 12)*						
Balance at beginning of year				**$ 857**	$ 858	$ 860
Proceeds from the issue of preferred shares				**400**	–	–
Translation adjustment on shares issued in a foreign currency				**17**	(1)	(2)
Balance at End of Year				**1,274**	857	858
	Number of Shares					
	1997	1996	1995			
Common Shares *(note 12)*						
Balance at beginning of year	**259,937,006**	263,684,556	265,456,651	**2,989**	3,002	3,002
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	–	–	631,264	–	–	17
Issued under the Stock Option Plan	**290,000**	122,100	–	**8**	3	–
Issued on the exchange of shares of Bank of Montreal Securities Canada Limited	**1,209,338**	1,130,350	1,096,641	**22**	19	23
Purchased for cancellation	–	(5,000,000)	(3,500,000)	–	(57)	(40)
Stock options granted on acquisition of an interest in an associated corporation	–	–	–	–	22	–
Balance at End of Year	**261,436,344**	259,937,006	263,684,556	**3,019**	2,989	3,002
Retained Earnings						
Balance at beginning of year				**3,740**	3,172	2,676
Net income				**1,305**	1,168	986
Dividends						
Preferred shares				**(83)**	(69)	(69)
Common shares				**(427)**	(386)	(350)
Common shares purchased for cancellation				–	(105)	(63)
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities and applicable income tax				**81**	(40)	(8)
Share issue expense, net of applicable income tax				**(6)**	–	–
Balance at End of Year				**4,610**	3,740	3,172
Total Shareholders' Equity				**$ 8,903**	$ 7,586	$ 7,032

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

For the Year Ended October 31 *(Canadian $ in millions except per share amounts)*	**1997**	1996	1995
Cash Flows from Operating Activities			
Net income	**$ 1,305**	$ 1,168	$ 986
Adjustments to determine net cash flows			
Provision for credit losses	**275**	225	275
Amortization of premises and equipment	**348**	234	215
Amortization of goodwill and intangibles	**85**	66	61
Deferred income taxes	**(116)**	80	67
Net (gain) on sale of investment securities	**(52)**	(71)	(46)
Change in accrued interest			
(Increase) in interest receivable	**(318)**	(48)	(238)
Increase (decrease) in interest payable	**(66)**	(66)	394
Net increase (decrease) in deferred loan fees	**(1)**	7	(8)
Net (increase) decrease in unrealized gains and amounts receivable on derivative contracts	**(6,569)**	95	28
Net increase in unrealized losses and amounts payable on derivative contracts	**6,446**	–	–
Net (increase) in trading securities	**(3,813)**	(5,794)	(2,769)
Net increase (decrease) in current income taxes payable	**71**	(200)	233
Changes in other items and accruals, net	**669**	(500)	111
Net Cash (Used in) Operating Activities	**(1,736)**	(4,804)	(691)
Cash Flows from Financing Activities			
Net increase in deposits	**24,950**	9,657	11,364
Net increase (decrease) in securities sold but not yet purchased	**(3,412)**	4,527	1,044
Net increase (decrease) in securities sold under repurchase agreements	**5,866**	4,052	(2,053)
Net increase (decrease) in liabilities of subsidiaries	**570**	(974)	227
Proceeds from issuance of subordinated debt	**1,000**	725	670
Repayment of subordinated debt	**(535)**	–	(269)
Foreign currency translation of subordinated debt	**52**	(6)	(24)
Proceeds from issuance of preferred shares	**400**	–	–
Foreign currency translation of preferred shares	**17**	(1)	(2)
Proceeds from issuance of common shares	**30**	22	40
Stock options granted on acquisition of an interest in an associated corporation	–	22	–
Common shares purchased for cancellation	–	(162)	(103)
Dividends paid	**(510)**	(455)	(419)
Net Cash Provided by Financing Activities	**28,428**	17,407	10,475
Cash Flows Used in Investing Activities			
Interest-bearing deposits with banks	**8,753**	2,435	5,533
Net purchases (sales) of investment securities	**1,315**	(2,698)	3,669
Net increase in loans	**14,344**	6,620	4,150
Proceeds from sale of credit card receivables	**(2,000)**	–	–
Net increase (decrease) in securities purchased under resale agreements	**4,436**	3,576	(4,067)
Premises and equipment – net purchases	**539**	401	340
Goodwill and valuation intangibles acquired	–	411	–
Acquisition of an interest in an associated corporation	–	423	–
Net Cash Used in Investing Activities	**27,387**	11,168	9,625
Net Increase (Decrease) in Cash and Cash Equivalents	**(695)**	1,435	159
Cash and Cash Equivalents at Beginning of Year	**3,346**	1,911	1,752
Cash and Cash Equivalents at End of Year	**$ 2,651**	$ 3,346	$ 1,911
Represented by:			
Cash and non interest-bearing deposits with Bank of Canada and other banks	**$ 1,681**	$ 1,698	$ 1,795
Cheques and other items in transit, net	**970**	1,648	116
	$ 2,651	$ 3,346	$ 1,911
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year	**$ 7,523**	$ 6,947	$ 6,110
Amount of income taxes paid in the year	**793**	887	371
Cash Income Per Common Share *(note 14)*	**4.97**	4.44	3.67

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

(Canadian $ in millions, unless otherwise stated)

Note 1 Basis of Presentation

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada.

In addition, our consolidated financial statements comply with the disclosure requirements of United States generally accepted accounting principles. Differences in total assets and liabilities or net income arising from applying United States generally accepted accounting principles are described in note 22.

Basis of Consolidation

We conduct business through a variety of corporate structures, including subsidiaries, joint ventures and associated corporations. Subsidiaries are those where we exercise control through our ownership of the majority of the voting shares. Joint ventures are those where we control a corporation together with various partners through our proportionate ownership of the voting shares. The revenues, expenses, assets and liabilities of our subsidiaries and our proportionate share of such amounts in joint ventures are included in our consolidated financial statements.

In some instances, we exert significant influence, but not control, over a corporation. Our investment in these associated corporations is recorded as a component of securities in our Consolidated Balance Sheet. Our proportionate share of the net income or loss is recognized in our interest, dividend and fee income in the Consolidated Statement of Income. The amount is net of adjustments for goodwill that arose at the time we acquired our interest in the associated corporation.

All significant intercompany transactions and balances are eliminated.

Trust assets under administration are maintained separately from our assets and are not included in our Consolidated Balance Sheet.

Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and report our consolidated financial statements in Canadian dollars. Assets, liabilities and shareholders' equity related to foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. The income and expense amounts related to these transactions are translated using the average exchange rate for the year. The realized and unrealized gains and losses arising from these translations are included in other income in our Consolidated Statement of Income.

We have various investments in foreign operations which are denominated in foreign currencies. Unrealized gains and losses arising from translating investments to Canadian dollars are included in shareholders' equity in our Consolidated Balance Sheet unless the operation is located in a country experiencing extremely high inflation over a prolonged period of time, then the unrealized gains and losses are included in other income in our Consolidated Statement of Income. All realized translation gains and losses related to our foreign operations are recognized in other income.

From time to time, we enter into foreign exchange hedge contracts to reduce our exposure to changes in the value of foreign currencies. The gain or loss on the translation of the hedge contract is offset against the realized or unrealized gain or loss on the translation of the item being hedged and is included in other income or retained earnings.

Use of Estimates

In preparing these consolidated financial statements we must make estimates and assumptions, mainly considering values, which affect reported amounts of assets, liabilities, net income and related disclosures.

Specific Accounting Policies

To facilitate a better understanding of our consolidated financial statements we have disclosed our significant accounting policies throughout the following notes with the related financial disclosures by major caption.

Changes in Accounting Policies

The effects of new accounting policies issued by standard setters are described in notes 7, 13 and 22.

Note 2 Cash Resources

Deposits with Banks

Deposits with banks are recorded at cost and include acceptances which we have purchased that have been issued by other banks. Interest income earned on these deposits is recorded on an accrual basis.

Cheques and Other Items in Transit, Net

Cheques and other items in transit are recorded at cost and represent the net position of the uncleared cheques and other items in transit between us and other banks.

	1997	1996
Cash and non interest-bearing deposits with Bank of Canada and other banks	**$ 1,681**	$ 1,698
Interest-bearing deposits with banks	**29,594**	20,841
Cheques and other items in transit, net	**970**	1,648
Total	**$ 32,245**	$ 24,187

We have a number of banking subsidiaries whose cash is available for use in their own business and may be restricted in their ability to lend to other related corporations.

Note 3 | Securities

Securities are divided into three components, each with a different purpose and accounting treatment. The three types of securities we hold are as follows:

- **Investment securities** are comprised of equity and debt securities that we purchase with the intention of holding until maturity or until market conditions, such as a change in interest rates, provide us with a better investment opportunity. Equity securities are recorded at cost and debt securities at amortized cost. Securities are written down to their fair value when we identify a long-term permanent decline in value. Any write-downs or gains and losses on disposal of our investment securities are recorded in the year they occur and are included in our Consolidated Statement of Income as either an increase or decrease to other income. Gains and losses on disposal are calculated using the average cost of the securities sold. Investment securities of designated countries are accounted for in accordance with our accounting policy for loans which is described in note 4.
- **Trading securities** are securities that we purchase for resale over a short period of time. We report these securities at their market value and record the mark-to-market adjustments and any gains and losses on the sale of these securities as trading revenue in our Consolidated Statement of Income. If the trading security has been designated as a hedge of derivative financial instruments the adjustments are reported as other income in our Consolidated Statement of Income.
- **Loan substitute securities** are customer financings, such as distressed preferred shares, that we structure as after-tax investments to provide our customers with an interest rate advantage over what would otherwise be applicable on a conventional loan. We record these securities on the same basis as a loan as described in note 4.

	Term to maturity										1997		1996
	Within 1 year		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years		Total book value		Total book value
Investment Securities		Yield %		Yield %		Yield %		Yield %		Yield %		Yield %	
Issued or guaranteed by:													
Canadian federal government	$ 2,136	4.32	$ 631	4.76	$ 11	5.06	$ 119	5.19	$ –	–	$ 2,897	4.45	$ 5,388
Canadian provincial and municipal governments	22	8.08	100	4.30	182	5.16	–	–	–	–	304	5.09	211
U.S. federal government	708	5.81	380	6.55	967	5.96	759	5.85	–	–	2,814	5.97	2,993
U.S. states, municipalities and agencies	1,973	5.80	758	6.91	354	6.69	305	7.28	321	7.66	3,711	6.39	2,730
Designated countries	–	–	–	–	–	–	–	–	49	19.60	49	19.60	70
Other governments	5	1.90	–	–	8	6.38	4	6.11	132	8.03	149	7.68	137
Mortgage-backed securities and collateralized mortgage obligations	31	8.23	–	–	322	6.64	–	–	1,923	7.02	2,276	6.98	2,173
Corporate debt	192	6.61	275	6.93	609	7.46	2,659	7.07	939	8.41	4,674	7.36	2,240
Corporate equity													
Associated corporation	–	–	–	–	–	–	–	–	537	–	537	–	436
Other	52	5.01	249	6.00	395	5.53	110	6.22	352	2.63	1,158	4.79	807
Total investment securities	5,119	5.23	2,393	6.08	2,848	6.34	3,956	6.77	4,253	6.30	18,569	6.08	17,185
Trading Securities													
Issued or guaranteed by:													
Canadian federal government	7,817		1,561		861		1,081		279		11,599		11,160
Canadian provincial and municipal governments	408		143		70		128		678		1,427		1,843
U.S. federal government	991		317		752		819		772		3,651		3,634
U.S. states, municipalities and agencies	160		17		27		4		–		208		119
All other	2,804		849		389		674		1,256		5,972		2,288
Total trading securities	12,180		2,887		2,099		2,706		2,985		22,857		19,044
Loan Substitute Securities	2		283		78		–		–		363		380
Total Securities	$ 17,301		$ 5,563		$ 5,025		$ 6,662		$ 7,238		$ 41,789		$ 36,609

Yields in the table above are calculated using the book value of the security and the contractual interest or stated dividend rates associated with each security adjusted for any amortization of premiums and discounts and country risk provisions associated with a particular security. Tax effects are not taken into consideration.

Securities of designated countries include any securities that we receive as part of a debt restructuring by a foreign country. They are recorded net of any country risk allowance (note 5) that we have allocated to these securities.

The term to maturity included in the table above is based on the contractual maturity date of the security. Securities with no maturity date are included in the over 10 years category.

We did not own any securities issued by a single non-government entity where the book value as at year end, or the prior year end, was greater than 10% of our shareholders' equity.

Increases in investment securities are:

	1997	1996
Purchases	$ 45,803	$ 86,356
Proceeds from sales	(26,161)	(68,316)
Maturities, prepayments and calls	(18,327)	(20,738)
Net purchases (sales) of investment securities	$ 1,315	$ (2,698)

All of our investment securities, other than our investment in our associated corporation, are available for sale.

Interest income and gains and losses from securities are:

	1997	1996	1995
Reported in:			
Interest, dividend and fee income			
Investment securities	$ 1,118	$ 1,165	$ 1,368
Associated corporation	89	55	–
Trading securities	937	904	395
	$ 2,144	$ 2,124	$ 1,763
Other Income			
Investment securities, net realized gains	$ 52	$ 71	$ 46
Trading securities, net realized and unrealized gains	$ 169	$ 121	$ 81

Interest expense is not included in the amounts shown above.

Unrealized Gains and Losses

	1997 Book value	1997 Gross unrealized gains	1997 Gross unrealized losses	1997 Market value	1996 Book value	1996 Gross unrealized gains	1996 Gross unrealized losses	1996 Market value
Investment Securities								
Issued or guaranteed by:								
Canadian federal government	$ 2,897	$ 42	$ 1	$ 2,938	$ 5,388	$ 95	$ –	$ 5,483
Canadian provincial and municipal governments	304	30	–	334	211	30	–	241
U.S. federal government	2,814	3	14	2,803	2,993	6	41	2,958
U.S. states, municipalities and agencies	3,711	31	1	3,741	2,730	19	4	2,745
Designated countries	49	43	–	92	70	91	–	161
Other governments	149	18	–	167	137	6	–	143
Mortgage-backed securities and collateralized mortgage obligations	2,276	34	1	2,309	2,173	12	32	2,153
Corporate debt	4,674	96	6	4,764	2,240	32	7	2,265
Corporate equity								
Associated corporation	537	118	–	655	436	132	–	568
Other	1,158	64	2	1,220	807	33	1	839
Total	$ 18,569	$ 479	$ 25	$ 19,023	$ 17,185	$ 456	$ 85	$ 17,556

The market value of securities is based on the quoted market price at each year end. This price may not necessarily be what we would receive if we were to sell the security. We use a variety of valuation techniques to estimate the market value when there is no readily available quoted market price for a particular security.

Note 4 Loans

Loans

All loans are recorded at cost net of any unearned interest, unamortized discounts and allowance for credit losses. Interest income is recorded on an accrual basis except for impaired loans, the treatment of which is described below. From time to time we will restructure a loan due to the poor financial condition of the borrower. Interest on these restructured loans is recorded on an accrual basis unless we consider the loan to be impaired.

Securities purchased under resale agreements represent the amounts we will receive as a result of our commitment to resell securities that we have purchased, back to the original sellers, on a specified date at a specified price. We account for these instruments as loans.

Loan Fees

Loan fees are received for a variety of reasons. The accounting treatment for these fees varies depending on the type of transaction. The unrecognized portion of all loan fees is included in other liabilities in our Consolidated Balance Sheet. Loan syndication fees are included in other income when we complete the syndication. Loan origination, restructuring, renegotiation and commitment fees are recognized as interest income over the term of the loan unless we believe that the loan commitment we provide to our customer will not be used. In this case, we recognize the loan commitment fee over the commitment period.

Impaired Loans

We classify loans, except credit card and consumer instalment loans, as impaired when:

- we are unlikely to collect the principal or interest owed to us on a timely basis; or
- the principal or interest payments are 90 days past due unless we are actively trying to collect the loan and it is fully secured; or
- fully secured loans become 180 days past due; or
- we consider it prudent or appropriate to cease accruing interest on the loan.

Credit card loans are immediately classified as impaired and written off when principal or interest payments become 180 days past due. Consumer instalment loans are immediately classified as impaired when the principal or interest payments are 90 days past due and are written off when they are past due by one year.

We do not accrue interest when we classify a loan as impaired and any interest income that is accrued and unpaid is reversed to interest income.

Any payments received on a loan that has been classified as impaired are recorded first to recover any previous write-offs or allowances before income is recognized. Any payments which we receive on impaired credit card loans, consumer instalment loans and loans to designated countries are applied first to the outstanding interest and then to the remaining principal amount.

Any property or other assets that we receive from our borrowers to satisfy their loan commitments to us are classified as impaired and recorded at the lower of the amount we expect to recover and the outstanding balance of the loan at the time the customer transfers the asset to us.

A loan will be reclassified back to performing status if new circumstances arise that cause us to believe that our principal and interest will be recovered in a timely manner from the borrower.

The following table sets out the outstanding amounts that we have classified as impaired:

	Canada		U.S.A.		Mexico		Other countries		Total	
	1997	1996	**1997**	1996	**1997**	1996	**1997**	1996	**1997**	1996
Residential mortgages	**$ 103**	$ 131	**$ –**	$ –	**$ –**	$ –	**$ –**	$ –	**$ 103**	$ 131
Consumer instalment and other personal loans	**24**	31	**6**	6	**–**	–	**–**	–	**30**	37
Credit card loans	**3**	5	**–**	–	**–**	–	**–**	–	**3**	5
Loans to businesses and governments	**388**	572	**248**	583	**–**	–	**5**	8	**641**	1,163
Securities purchased under resale agreements	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Securities of designated countries	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Loan substitute securities	**–**	3	**–**	–	**–**	–	**–**	–	**–**	3
Acceptances	**10**	58	**–**	–	**–**	–	**–**	–	**10**	58
Total impaired loans and acceptances	**528**	800	**254**	589	**–**	–	**5**	8	**787**	1,397
Allowance for credit losses	**(894)**	(735)	**(246)**	(290)	**–**	–	**(5)**	(8)	**(1,145)**	(1,033)
Total net impaired loans and acceptances	**$ (366)**	$ 65	**$ 8**	$ 299	**$ –**	$ –	**$ –**	$ –	**$ (358)**	$ 364
Average net impaired loans and acceptances	**$ (129)**	$ 184	**$ 143**	$ 419	**$ –**	$ –	**$ –**	$ –	**$ 14**	$ 603

	Canada			U.S.A.			Mexico			Other countries			Total		
	1997	1996	1995	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995
Gross interest income received on impaired loans and acceptances	**$ 54**	$ 42	$ 32	**$ 90**	$ 20	$ 8	**$ –**	$ –	$ –	**$ 60**	$ 35	$ 35	**$ 204**	$ 97	$ 75
Interest income received on impaired loans and acceptances, net of interest reversals	**$ 39**	$ 25	$ 20	**$ 90**	$ 19	$ 2	**$ –**	$ –	$ –	**$ 60**	$ 35	$ 35	**$ 189**	$ 79	$ 57

Included in impaired loans is other real estate owned and securities received from customers in satisfaction of their loans totalling $55 as at October 31, 1997 and $133 as at October 31, 1996.

Designated countries are determined by the Superintendent of Financial Institutions Canada as having difficulty in servicing all or part of their external debt to commercial banks. We did not have any net impaired loans to designated countries as at October 31, 1997 or October 31, 1996.

Approximately 2% of the gross exposure to designated countries was classified as impaired as at October 31, 1997 and October 31, 1996.

The allowance for credit losses as at October 31, 1997 is net of $93 (1996 – $108) of country risk allowance that is in excess of gross impaired loans to designated countries.

Fully secured loans with past due amounts between 90 and 180 days that we have not classified as impaired totalled $54 as at October 31, 1997 and $31 as at October 31, 1996.

During the current year we restructured $1 of loans classified as performing. In the prior year, we restructured $27 of loans of which $26 were classified as impaired as at October 31, 1996. We wrote off $2 of restructured loans in the current year (1996 – $ nil).

The interest income that we would have recognized over the last three years if we had not classified loans as impaired is:

	1997	1996	1995
Interest income that would have been accrued at original contract rates	**$ 68**	$ 128	$ 174
Less: amount recognized as interest income	**(43)**	(8)	(18)
Total	**$ 25**	$ 120	$ 156

Note 5 Allowance for Credit Losses

The provision for credit losses is recorded in the Consolidated Statement of Income. It is based on statistical analysis and management judgement and represents the appropriate expense given the composition of our credit portfolios, their probability of default, the economic environment and the allowance for credit losses already established.

The allowance for credit losses recorded in the Consolidated Balance Sheet is maintained at a level which we consider to be adequate to absorb potential credit losses in our on- and off-balance sheet portfolios.

We maintain the following allowances:

Specific Allowances

These allowances are recorded for specific loans to reduce their book value to the amount we expect to recover from the loans. We review our loans and acceptances, other than consumer instalment and credit card loans, on a quarterly basis to assess whether the loan should be classified as impaired and an allowance or write-off recorded. Our quarterly review process is conducted by our account managers who assess the ultimate collectibility and estimated recoveries on a specific loan based on all events and conditions that the manager believes are relevant to the condition of the loan. This assessment is then reviewed and approved by an independent credit officer. Significant specific allowances and the aggregate allowance for credit losses are reviewed by the Risk Management Policy unit at Head Office, which is independent from the credit function.

An independent corporate audit group also reviews loans on a sample basis throughout the year to assess the need for specific allowances.

We use a variety of methods to determine the amount we expect to recover from impaired loans including the discounted value of estimated future cash flows, observable market values or the fair value of the underlying security discounted to what we expect to receive if we were to sell the security. The value of any collateral is also considered in establishing an allowance. Collateral can vary by type of loan and may include cash, securities, real property, accounts receivable, guarantees, inventory or other capital assets.

General Allowance

This allowance is recorded for loans, including those of an associated corporation, joint ventures and securitization vehicles, recognizing that not all of the impairment in the loan portfolio can be specifically identified on a loan by loan basis. The value of these loans totalled $123,931 as at October 31, 1997 and $103,451 as at October 31, 1996. The general allowance is based upon statistical analysis of past performance, the level of allowance already in place and management's judgement. The general allowance would normally increase in a strong business/economic cycle and decrease in a weak business/economic cycle as specific allowances are determined for loans.

Country Risk Allowance

This allowance is recorded for loans to and securities of countries identified by the Superintendent of Financial Institutions Canada that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks. These loans and securities are reviewed quarterly by our account managers, credit personnel and the Risk Management Policy unit to assess the adequacy of the allowance based on the current and expected political and economic conditions in the respective countries.

The following table sets out our allocation of the allowance for credit losses:

	Specific allowances			General allowance			Country risk allowance			Total		
	1997	1996	1995	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995
Residential mortgages	**$ 9**	$ 9	$ 6	**$ –**	$ –	$ –	**$ –**	$ –	$ –	**$ 9**	$ 9	$ 6
Consumer instalment and other personal loans	**11**	15	17	**–**	–	–	**–**	–	–	**11**	15	17
Credit card loans	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Loans to businesses and governments	**345**	526	540	**–**	–	–	**5**	8	7	**350**	534	547
Securities purchased under resale agreements	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Unallocated	**–**	–	–	**775**	475	325	**–**	–	–	**775**	475	325
	365	550	563	**775**	475	325	**5**	8	7	**1,145**	1,033	895
Securities of designated countries	**–**	–	–	**–**	–	–	**93**	108	360	**93**	108	360
Loan substitute securities	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Acceptances	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
	365	550	563	**775**	475	325	**98**	116	367	**1,238**	1,141	1,255
Off-balance sheet items	**1**	2	–	**–**	–	–	**–**	–	–	**1**	2	–
Total	**$ 366**	$ 552	$ 563	**$ 775**	$ 475	$ 325	**$ 98**	$ 116	$ 367	**$ 1,239**	$ 1,143	$ 1,255

Changes in the allowance for credit losses are:

	Specific allowances			General allowance			Country risk allowance			Total		
	1997	1996	1995	**1997**	1996	1995	**1997**	1996	1995	**1997**	1996	1995
Balance at beginning of year	**$ 552**	$ 563	$ 812	**$ 475**	$ 325	$ 200	**$ 116**	$ 367	$ 484	**$ 1,143**	$ 1,255	$ 1,496
Provision for credit losses	**75**	225	150	**200**	–	125	**–**	–	–	**275**	225	275
Transfer of allowance	**(100)**	–	–	**100**	150	–	**–**	(150)	–	**–**	–	–
Recoveries	**158**	103	52	**–**	–	–	**–**	–	–	**158**	103	52
Write-offs	**(334)**	(344)	(450)	**–**	–	–	**(23)**	(105)	(115)	**(357)**	(449)	(565)
Other, including foreign exchange rate changes	**15**	5	(1)	**–**	–	–	**5**	4	(2)	**20**	9	(3)
Balance at end of year	**$ 366**	$ 552	$ 563	**$ 775**	$ 475	$ 325	**$ 98**	$ 116	$ 367	**$ 1,239**	$ 1,143	$ 1,255

Note 6 Premises and Equipment

We record all premises and equipment at cost. Buildings, computer and other equipment, and leasehold improvements are amortized on a straight-line basis over the estimated useful life of the asset. The maximum estimated useful life we use to amortize our assets are:

- Buildings — up to 40 years
- Computer and other equipment — up to 10 years
- Leasehold improvements — up to 15 years

For the years ended October 31, 1997, 1996 and 1995 amortization expense amounted to $348 in 1997, $234 in 1996 and $215 in 1995. Included in land and buildings are the costs for Bank-owned branches and other properties, located in Canada, the United States and other countries, of which we owned 558 as at October 31, 1997 and 580 as at October 31, 1996.

	1997	1996
Land	**$ 269**	$ 265
Buildings	**1,209**	1,145
Computer and other equipment	**1,679**	1,337
Leasehold improvements	**319**	317
	3,476	3,064
Accumulated amortization	**(1,418)**	(1,197)
Total	**$ 2,058**	$ 1,867

Note 7 | Other Assets

Goodwill and Other Valuation Intangibles

When we purchase a subsidiary or a specific investment in a portfolio of loans or securities we determine the fair value of the net assets being acquired and compare this to the amount we pay for the investment. Any excess of the amount paid compared to the fair value is considered to be goodwill or other valuation intangibles. This excess amount is deferred and amortized to income over the period that we believe the investment will benefit us, up to a maximum of 25 years. The unamortized balance of goodwill and other valuation intangibles is recorded in other assets and is written down to fair value when the expected cash flows generated by the acquired subsidiary or asset no longer support the carrying value and the shortfall is expected to remain for some time.

Changes in Accounting Policies

Effective in 1997, Canadian generally accepted accounting principles require that unrealized gains and losses on derivative financial instruments be reported on a gross rather than net basis. We have adopted this new accounting standard in the current year and did not restate the prior years' consolidated financial statements. Had we applied the standard last year, other assets and other liabilities (note 10) as at October 31, 1996 would have been increased by $6,623.

	1997	1996
Accounts receivable, prepaid expenses and other items	$ 1,475	$ 1,707
Accrued interest receivable	1,246	928
Due from clients, dealers and brokers	744	588
Unrealized gains and amounts receivable on derivative contracts	6,655	86
Deferred income taxes	277	161
Goodwill and other valuation intangibles	837	889
Total	$ 11,234	$ 4,359
The components of goodwill and other valuation intangibles for each major subsidiary are as follows:		
Goodwill		
The Nesbitt Burns Corporation Limited and subsidiaries	$ 246	$ 275
Harris Bankcorp, Inc. and subsidiaries	201	205
Harris Bankmont, Inc. and subsidiaries	75	77
	522	557
Other valuation intangibles		
Harris Bankcorp, Inc. and subsidiaries	230	242
Harris Bankmont, Inc. and subsidiaries	74	76
Bank of Montreal Mortgage Corporation	11	14
	315	332
Total	$ 837	$ 889

Amortization of goodwill and other valuation intangibles is recorded in our Consolidated Statement of Income as:

	1997	1996	1995
Non-interest expense	$ 74	$ 54	$ 49
Interest expense	11	12	12
Total	$ 85	$ 66	$ 61

Note 8 Operating and Geographic Segmentation

We conduct our business through operating segments, each of which has a distinct market, product and geographic mandate. Information concerning the management of these operating segments is contained in our Management Analysis of Operations.

We have also included disclosure of net income, average assets, loans and deposits for each operating segment which is set out in the tables on pages 30 to 40.

Note 9 Deposits

	Demand deposits									
	Interest-bearing		Non interest-bearing		Payable after notice		Payable on a fixed date		Total	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
Deposits by:										
Banks	$ 186	$ 138	$ 465	$ 469	$ 697	$ 589	$ 29,924	$ 23,544	$ 31,272	$ 24,740
Businesses and governments	2,569	2,053	7,875	7,690	7,132	6,159	37,325	21,572	54,901	37,474
Individuals	2,537	2,450	1,394	1,228	22,658	22,514	31,450	30,856	58,039	57,048
Total	$ 5,292	$ 4,641	$ 9,734	$ 9,387	$ 30,487	$ 29,262	$ 98,699	$ 75,972	$ 144,212	$ 119,262
Booked in:										
Canada	$ 3,765	$ 3,035	$ 5,358	$ 4,491	$ 23,911	$ 23,567	$ 49,381	$ 39,148	$ 82,415	$ 70,241
U.S.A.	1,443	1,529	4,315	4,855	5,896	5,105	24,000	16,064	35,654	27,553
Mexico	–	–	–	–	–	–	–	–	–	–
Other countries	84	77	61	41	680	590	25,318	20,760	26,143	21,468
Total	$ 5,292	$ 4,641	$ 9,734	$ 9,387	$ 30,487	$ 29,262	$ 98,699	$ 75,972	$ 144,212	$ 119,262

Demand deposits are comprised primarily of our customers' chequing accounts, some of which we pay interest on. Our customers need not notify us prior to withdrawing money from their chequing accounts.

Deposits payable after notice are comprised primarily of our customers' savings accounts on which we pay interest. Our customers are required to give us notice prior to withdrawing money from these accounts.

Deposits payable on a fixed date are comprised primarily of various investment instruments used by our customers, such as term deposits and guaranteed investment certificates, to earn interest over a fixed period. The term of these deposits can vary from one day to seven years.

Federal funds purchased represents overnight borrowings of other banks' excess reserve funds at a United States Federal Reserve Bank. As at October 31, 1997 we had borrowed $2,501 of these funds compared to $1,798 as at October 31, 1996.

Deposits include commercial paper totalling $1,476 as at October 31, 1997 and $568 as at October 31, 1996.

Included in our deposits are $27,795 of individual deposits greater than $100,000.00 in Canada and $45,407 outside Canada as at October 31, 1997 and $17,544 in Canada and $32,173 outside Canada as at October 31, 1996. Of the total deposits booked in Canada $21,594 related to deposits maturing within six months or less as at October 31, 1997 and $14,302 as at October 31, 1996. Individual deposits greater than $100,000.00 outstanding at year end that are payable on a fixed date totalled $73,202 as at October 31, 1997 and $49,717 as at October 31, 1996.

Note 10 Other Liabilities

Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We have an offsetting claim, equal to the amount of the acceptances, against our customers when the instrument matures. Our liability under acceptances is recorded as a liability and our corresponding claim is recorded as an asset in the Consolidated Balance Sheet.

Securities Sold but not yet Purchased

Securities which we have sold but not yet purchased represent our obligation to deliver securities which we did not own at the time of sale. These obligations are recorded at their market value. Adjustments to the market value as at the balance sheet date and gains and losses on the settlement of these obligations are recorded as interest, dividend and fee income from securities in our Consolidated Statement of Income.

Securities Sold under Repurchase Agreements

Securities which we have sold under repurchase agreements represent short-term funding transactions where we sell securities that we already own and simultaneously commit to repurchase the same securities at a specified price on a specified date in the future. These securities are recorded at their original cost. The interest expense related to these liabilities is recorded on an accrual basis.

	1997	1996
Acceptances	**$ 5,594**	$ 4,397
Securities sold but not yet purchased	**10,304**	13,716
Securities sold under repurchase agreements	**21,389**	15,523
	$ 37,287	$ 33,636
Accounts payable, accrued expenses and other items	**$ 3,166**	$ 2,530
Liabilities of subsidiaries, other than deposits	**2,599**	2,029
Accrued interest payable	**1,161**	1,227
Unrealized losses and amounts payable on derivative contracts	**6,446**	–
Deferred loan fees	**82**	83
Non-controlling interest in subsidiary	**151**	165
Other	**$ 13,605**	$ 6,034
Total	**$ 50,892**	$ 39,670

Included in liabilities of subsidiaries, other than deposits are other short-term borrowings totalling $2,458 as at October 31, 1997 and $1,895 as at October 31, 1996.

Note 11 Subordinated Debt

Subordinated debt represents our direct unsecured obligations to our debt holders and forms part of our regulatory capital. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require prior approval from the Superintendent of Financial Institutions Canada before we can redeem any part of the subordinated debt.

Our subordinated debt consists of notes and debentures with interest rates ranging from 4.09% to10.85%. The maturity dates extend from September 1998 to August 2089.

The interest rates on certain debenture series are variable based on various indices. In addition, certain series of subordinated debt are redeemable at our option on various dates prior to February 2012.

Included in subordinated debt are debentures and subordinated notes denominated in U.S. dollars totalling US$750 as at October 31, 1997 and US$1,000 as at October 31, 1996. The Canadian dollar equivalent of these is $1,056 as at October 31, 1997 and $1,339 as at October 31, 1996.

During the year we established a $2.5 billion North American shelf offering program which enables us to issue subordinated debt securities to investors in Canada and the United States. We have issued $450 million medium-term notes under this program as at October 31, 1997.

Repayments of our subordinated debt required over the next five years and thereafter are:

1998	$ 211
1999	10
2000	–
2001	–
2002	150
Thereafter	3,460
Total	$ 3,831

Note 12 Share Capital

Outstanding

(Canadian $ in millions, except per share information)

	1997			1996			1995		
	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share
Preferred Shares									
Class A – Series 4	**8,000,000**	**$ 200**	**$ 2.25**	8,000,000	$ 200	$ 2.25	8,000,000	$ 200	$ 2.25
Class A – Series 5	**288**	**72**	**19,062.50**	288	72	19,062.50	288	72	19,062.50
Class B – Series 1	**10,000,000**	**250**	**2.25**	10,000,000	250	2.25	10,000,000	250	2.25
Class B – Series 2	**10,000,000**	**352**	**US$1.69**	10,000,000	335	US$1.69	10,000,000	336	US$1.69
Class B – Series 3	**16,000,000**	**400**	**0.93**	–	–	–	–	–	–
		1,274			857			858	
Common Shares	**261,436,344**	**3,019**	**1.64**	259,937,006	2,989	1.48	263,684,556	3,002	1.32
Total Outstanding Share Capital		**$ 4,293**			$ 3,846			$ 3,860	

	Common Shares	Preferred Shares: Class A Series 4	Class A Series 5	Class B Series 1	Class B Series 2 *(US$ shares)*	Class B Series 3
Redeemable...	Not redeemable	At our option	At our option	At our option	At our option	At our option
Redeemable starting...	–	September 20, 1999	November 25, 1998	February 25, 2001	August 25, 2001	August 25, 2004
Redeemable for...	–	$25.00 cash per share or an equivalent value of our common shares.	$250,000.00 per share starting December 5, 1998 or an equivalent value of our common shares starting November 25, 1998.	$25.00 cash per share or an equivalent value of our common shares.	US$25.00 cash per share or an equivalent value of our common shares.	$25.00 cash per share, plus a premium if we redeem the shares before August 25, 2006, or an equivalent value of our common shares.
Convertible...	Not convertible	Not convertible	At the shareholder's option	At the shareholder's option	At the shareholder's option	At the shareholder's option
Convertible starting...	–	–	July 10, 1999	August 25, 2001	February 25, 2002	May 25, 2007
Convertible into...	–	–	Our common shares. However, we have the right to pay $250,000.00 cash per share instead.	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Our common shares. However, we have the right to pay US$25.00 cash per share instead.	Our common shares. However, we have the right to pay $25.00 cash per share instead.
Dividend Rate and Terms	Dividends on common shares are declared by us on a quarterly basis and the amount can vary from quarter to quarter.	Quarterly, non-cumulative dividend equal to the greater of $0.5625 per share or 113.2% of the cash dividend paid on our common shares.	Quarterly, non-cumulative dividend of $4,765.625 per share.	Quarterly, non-cumulative dividend of $0.5625 per share.	Quarterly, non-cumulative dividend of US$0.4219 per share.	Quarterly, non-cumulative dividend of $0.346875 per share.

Authorized

We are authorized by our shareholders to issue an unlimited number of our common shares, without par value, providing the aggregate consideration we receive for the shares does not exceed $5.5 billion. We are authorized to issue an unlimited number of Class A Preferred Shares and Class B Preferred Shares without par value, in series, provided the aggregate amount of consideration we receive for all Class A and Class B Preferred Shares does not exceed $2.5 billion each. Class B Preferred Shares may be issued in a foreign currency.

Redemption and Dividend Restrictions

The Superintendent of Financial Institutions Canada must approve any plan to redeem any of our preferred share issues for cash.

We are prohibited from declaring dividends on our preferred or common shares when we are, or would be as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends declared and payable on our preferred shares have been paid or sufficient funds have been set aside to do so.

Common Shares

In July 1995, we commenced a share repurchase program to acquire our common shares through recognized stock exchanges. This program was established to cancel some of our common shares and help minimize the potentially dilutive effects that may arise from common shares that could be issued under our Stock Option Plan and acquisitions of The Nesbitt Thomson Corporation Limited, Burns Fry Limited and our equity stake in Grupo Financiero Bancomer. No common shares were repurchased for cancellation in the current year. In 1996 we repurchased 5.0 million common shares for cancellation at an average cost of $32.41.

We maintain a Stock Option Plan for designated officers and employees. The options granted under this plan can be exercised starting five fiscal years from November 1 of the fiscal year in which the options are granted to the officer or employee. The options expire ten years from the date they are granted. The options can only be exercised when we meet certain performance targets.

In 1996 we also granted options to Grupo Financiero Bancomer to purchase up to 9,957,285 of our common shares as part of the consideration paid for our investment in Grupo Financiero Bancomer. The options can be exercised starting March 29, 2001 and expire on March 29, 2003. The options can only be exercised if Grupo Financiero Bancomer meets certain performance targets. The value we assigned to each option was $2.22 which has been included in the value of common shares in our Statement of Shareholders' Equity.

One of our subsidiaries, Bank of Montreal Securities Canada Limited, has issued various classes of non-voting shares which can be exchanged for our common shares. Class B and C shares can be exchanged at the option of the holder for our common shares. The number of our common shares that will be issued on the exchange of these shares is based on a formula. Class E shares can be exchanged at the option of the holder over a four-year period, with 25% of the shares becoming exchangeable each year. Class F shares can be exchanged at any time at the option of the holder.

The Nesbitt Burns Corporation Limited, a subsidiary of Bank of Montreal Securities Canada Limited, has issued non-voting Class D shares which are exchangeable for our common shares. However, we have the option of redeeming these shares for cash, if we choose, with the amount based on the net book value of the shares.

At the end of the current year, we had reserved 6,727,097 common shares for potential issue in respect of our Shareholder Dividend Reinvestment and Share Purchase Plan, 7,402,920 common shares in respect of the exchange of Class B, C, E and F shares of Bank of Montreal Securities Canada Limited, 1,000,000 common shares in respect of the exchange of Class D shares of The Nesbitt Burns Corporation Limited and 29,545,185 common shares for the potential exercise of stock options.

Potential Share Issuances

The following table sets out the number of common shares which we may issue in various circumstances:

		1997		1996	
	Issue date	**Number of shares**	**Price per share**	Number of shares	Price per share
Stock Option Plan	1995	**2,414,400**	**$ 25.50**	2,604,200	$ 25.50
	1996	**2,838,500**	**31.00**	3,042,500	31.00
	1997	**2,758,850**	**39.85**	–	–
	1997	**75,000**	**57.50**	–	–
		8,086,750		5,646,700	
Other options	1996	**9,957,285**	**$ 36.50**	9,957,285	$ 36.50
		18,044,035		15,603,985	
Other convertible issuances	1992	**2,763,516**	**$ 14.03**	2,954,133	$ 14.12
	1994	**2,237,474**	**18.07**	3,302,055	17.93
		5,000,990		6,256,188	
Total		**23,045,025**		21,860,173	

This table does not include share issues which are redeemable at our option or subject to our ability to settle a conversion option with cash.

Note 13 Income Taxes

We report income tax expense in the Consolidated Statement of Income based upon transactions recorded in the consolidated financial statements regardless of when they are recognized for income tax purposes.

Total income taxes include our provision for income taxes in the Consolidated Statement of Income and income taxes in respect of items recorded directly in retained earnings.

Provision for Income Taxes	**1997**	1996	1995
Provision for income taxes reported in the Consolidated Statement of Income	**$ 840**	$ 757	$ 662
Income tax expense (benefit) related to foreign currency translation reported in shareholders' equity	**(92)**	10	9
Total	**$ 748**	$ 767	$ 671
Components of Total Income Taxes			
Canada:			
Current			
Federal	**$ 443**	$ 440	$ 364
Provincial	**169**	144	122
	612	584	486
Deferred			
Federal	**(83)**	47	54
Provincial	**(24)**	15	18
	(107)	62	72
Total Canadian	**505**	646	558
Foreign:			
Current	**252**	103	118
Deferred	**(9)**	18	(5)
Total Foreign	**243**	121	113
Total	**$ 748**	$ 767	$ 671

Net deferred income taxes included in other assets is the cumulative amount of tax applicable to differences in timing between when we recognize transactions for accounting and tax purposes.

Changes in Accounting Policies

The Canadian Institute of Chartered Accountants has approved new standards for recording and disclosing income taxes beginning in fiscal 2001. Our practices already comply with these new standards.

We are subject to Canadian taxation on the income earned in our foreign branches, and certain earnings of foreign subsidiaries when repatriated to Canada. Income which we earn in foreign countries is generally subject to tax in those countries.

Components of Deferred Income Tax Balances

	1997	1996
Deferred Income Tax Assets		
Allowance for credit losses	**$ 370**	$ 296
Deferred items	**95**	75
Other	**100**	58
	565	429
Valuation allowance	**(12)**	(11)
Deferred Income Tax Assets	**553**	418
Deferred Income Tax Liabilities		
Premises and equipment	**(132)**	(106)
Deferred pension	**(125)**	(126)
Purchase accounting adjustments	**(16)**	(19)
Other	**(3)**	(6)
Deferred Income Tax Liabilities	**(276)**	(257)
Net Deferred Income Tax Asset	**$ 277**	$ 161

We review the valuation of our deferred income tax assets quarterly and adjust our valuation allowance, as necessary, to reflect estimates of the net realizable value of our deferred tax assets. We expect that we will realize our deferred tax assets in the normal course of our operations.

Set out below is a reconciliation of our statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that we have reported in our Consolidated Statement of Income:

		1997		1996		1995
Combined Canadian federal and provincial income taxes and statutory tax rate	**$ 909**	**41.9%**	$ 816	42.0%	$ 696	41.9%
Increase (decrease) resulting from:						
Tax-exempt income	**(71)**	**(3.3)**	(67)	(3.5)	(51)	(3.0)
Foreign operations subject to different tax rates	**(71)**	**(3.3)**	(60)	(3.1)	(47)	(2.8)
Goodwill and other valuation intangibles not deductible for tax purposes	**21**	**1.0**	21	1.1	26	1.5
Large corporations tax	**8**	**0.4**	9	0.4	7	0.4
Financial institutions temporary surcharge	**10**	**0.4**	9	0.4	6	0.3
Other	**34**	**1.6**	29	1.6	25	1.5
Provision for Income Taxes and Effective Tax Rate	**$ 840**	**38.7%**	$ 757	38.9%	$ 662	39.8%

Note 14 Net Income Per Common Share

Our basic net income per common share is calculated by dividing our net income, after deducting total preferred share dividends, by the daily average number of fully paid common shares outstanding throughout the year.

Our fully diluted net income per common share takes into account the effects of certain securities that we issue, such as stock options and redeemable and convertible securities, that could potentially decrease our net income per common share. In 1997, 1996 and 1995 the fully diluted amount included the potential dilution of convertible securities issued by a subsidiary. Additionally in 1997, we have included the potential issuance of shares under stock options issued in 1995. The average number of common shares outstanding throughout the year used to calculate our fully diluted net income per common share is based on the assumption that all securities which are convertible or redeemable at the option of the holder occurred at the beginning of the year or from the date the security was issued, if later.

Our net income applicable to common shares and the average number of common shares outstanding for the year used to calculate our basic and fully diluted net income per common share are as follows:

	1997	1996	1995
Net income attributable to common shares – basic	**$ 1,222**	$ 1,099	$ 917
Average number of common shares outstanding – basic	**260,409,736**	261,232,729	265,632,030
Average number of common shares outstanding – fully diluted	**268,699,928**	268,361,643	273,919,447

Cash income per common share is calculated based on the net income available to common shareholders, excluding amortization of goodwill and other valuation intangibles after tax, divided by the daily average number of fully paid common shares outstanding throughout the year.

Note 15 Pension Funds

We have a number of pension plans which provide benefits to our employees in North America and other parts of the world. The principal pension plan covers Canadian employees. Our plans generally provide retirement benefits based on the employees' years of service and average earnings at the time of retirement and do not require employees to make contributions. Voluntary contributions can be made by employees.

Our actuaries perform regular valuations of the accrued obligation for pension benefits to our employees based on assumptions about salary growth, retirement age and mortality. The pension plan assets are carried at market value and are set aside to satisfy our pension obligations.

The pension expense is recorded in our Consolidated Statement of Income as a component of salaries and employee benefits. It is determined by the cost of the employee pension benefits offset by the assumed investment return on the pension plan assets. When the actual return differs from the assumed, the experience gain or loss is deferred and allocated to future periods.

The cumulative difference between the pension expense and the actual cash contributions we make into the pension plans on our employees' behalf are included in our Consolidated Balance Sheet as part of other assets or other liabilities, as appropriate.

We also provide certain life insurance, health and dental care benefits for retired employees. The cost of these benefits is recorded in salaries and employee benefits expense as incurred.

The following table provides summaries of our pension plans' estimated financial positions:

	1997	1996	1995
Accumulated pension benefit obligation, including vested benefits of $1,631 in 1997, $1,312 in 1996 and $1,274 in 1995	**$ 1,670**	$ 1,341	$ 1,303
Projected pension benefit obligation for employee service rendered to date	**$ 1,877**	$ 1,746	$ 1,634
Pension plan assets at fair value	**2,581**	2,207	1,956
	704	461	322
Unrecognized net (gain) from past experience different from that assumed and effects of changes in actuarial assumptions	**(397)**	(174)	(23)
Prior period employee service costs not yet recorded	**56**	57	60
Unrecognized transition amount	**(2)**	(11)	(20)
Prepaid pension expense	**$ 361**	$ 333	$ 339

As at October 31, 1997, the pension plan assets consisted of equities (60%), fixed income investments (39%) and real estate and other investments (1%).

	1997	1996	1995
Annual Pension Expense			
Net pension expense includes the following components:			
Pension benefits earned by employees	**$ 61**	$ 59	$ 57
Interest cost accrued on our projected pension benefit obligation	**140**	135	127
Actual investment return earned on pension plan assets	**(453)**	(344)	(250)
Net amortization and deferral	**283**	180	103
Annual pension expense	**31**	30	37
Canada and Quebec pension plan contribution	**26**	22	21
Total annual pension expense	**$ 57**	$ 52	$ 58
Actuarial Assumptions			
Weighted average discount rate for projected benefit obligation	**7.9%**	7.9%	8.2%
Weighted average rate of compensation increase	**3.9**	4.3	5.4
Weighted average expected long-term rate of return on pension plan assets	**8.2**	8.4	8.4

The cost of post-retirement life insurance, health and dental care benefits reported in employee benefits expense was $11 in 1997, $10 in 1996 and $8 in 1995.

Note 16 | Loans Sold

Periodically we securitize portions of our assets by selling loans to special-purpose vehicles or trusts of which we are not the beneficiaries. We account for these transactions as sales when the significant risks and rewards of the ownership of the loans have been transferred and we can estimate the amount of cash to be received.

We record these sales based upon the market value of the loans sold. Gains or losses are recorded in income upon completion of the sales.

The fees which we receive for continuing to service the loans sold are recorded in income using the accrual method. The contracts may also provide for the payment to us of an additional fee when the sum of interest and fees collected from customers exceeds the yield paid to investors on the assets, credit losses and other costs. We record our entitlement to such amounts in income when the servicing fee is legally payable by the special-purpose vehicle.

The amounts of outstanding loans sold to special-purpose vehicles are:

	1997	1996
Securitized credit card receivables	**$ 2,000**	$ –

The impact of securitization on the Consolidated Statement of Income is:

	1997	1996	1995
Net interest income	**$ (40)**	$ –	$ –
Other income – card services	**$ 39**	$ –	$ –
Income before provision for income taxes	**$ (1)**	$ –	$ –

Note 17 | Related Party Transactions

We provide banking services to our subsidiary companies on the same terms that we offer to our customers. In addition, we make loans to current and former directors, officers and employees at various rates and terms. The interest earned on these loans is recorded in interest, dividend and fee income in the Consolidated Statement of Income.

The amounts outstanding under these loan agreements are:

	1997	1996
Mortgage loans	**$ 835**	$ 954
Personal loans	**360**	353
Total	**$ 1,195**	$ 1,307

Note 18 Risk Management

Our business necessitates the management of several categories of risk including credit, position, liquidity and operational risks. The nature of the risks of our business and our management of them is set out in the discussion on pages 41 to 44 of our Management Analysis of Operations. Specific measures of risk such as the allowance for credit losses, trading revenue, derivative financial instruments and fair value of financial instruments are set out in the consolidated financial statements. A summary of our interest rate gap position and effective interest rates on our financial instrument assets and liabilities is set out on page 56 of our Management Analysis of Operations.

Note 19 Credit Commitments and Contingent Liabilities

(a) Credit Instruments

As a part of our business, we enter into various commitments to provide our customers with sources of credit. These commitments include:

- Guarantees and standby letters of credit which represent our obligation to make payments to third parties on behalf of our customers if our customers are unable to make the required payments or meet other contractual requirements;
- Securities lending which represents our credit exposure when we lend our securities, or our customers' securities, to third parties;
- Documentary and commercial letters of credit which represent our agreement to honour drafts presented by a third party upon completion of specific activities;
- Commitments to extend credit to our customers in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions;
- Note issuance and revolving underwriting facilities and similar arrangements, including facilities under which we acquire short-term notes issued by our customers for a predetermined price in the event that the customer is unable to sell the notes to third parties.

In making these commitments, we expose ourselves to credit risk, being the risk that we may incur a loss if a counterparty fails to meet its obligations.

Summarized below is our contractual and risk-weighted equivalent value of our various commitments, which are based on the rules of capital adequacy of the Superintendent of Financial Institutions Canada. The risk-weighted equivalent value is used in the ongoing assessment of our capital adequacy ratios.

	1997		1996	
	Contract amount	**Risk-weighted equivalent**	Contract amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	**$ 10,562**	**$ 7,468**	$ 8,303	$ 6,713
Securities lending	**13,547**	**1,454**	16,289	1,033
Documentary and commercial letters of credit	**1,637**	**290**	1,116	187
Commitments to extend credit:				
Original maturity of one year and under	**39,474**	**–**	32,945	–
Original maturity of over one year	**32,813**	**15,959**	27,080	13,108
Note issuance and revolving underwriting facilities	**–**	**–**	33	17
Total	**$ 98,033**	**$ 25,171**	$ 85,766	$ 21,058

Commitments to extend credit in respect of consumer instalment and credit card loans are excluded as the lines are revocable at our discretion.

(b) Lease Commitments

We have entered into a number of non-cancellable leases for premises and equipment in order to conduct business. Our total contractual rental commitments outstanding as at October 31, 1997 are $948. The commitments for each of the next five years are $151 for 1998, $134 for 1999, $112 for 2000, $98 for 2001, $83 for 2002 and $370 for 2003 and thereafter. Included in these amounts are the commitments related to 688 leased Bank branch locations as at October 31, 1997. Net rent expense for premises and equipment reported in the Consolidated Statement of Income was $166 for 1997, $156 for 1996 and $151 for 1995.

(c) Legal Proceedings

Nesbitt Burns Inc., an indirect subsidiary of the Bank of Montreal, has been named as a defendant in several class and individual actions in Canada and a class action in the United States of America brought on behalf of shareholders of Bre-X Minerals Ltd. ("Bre-X"). Other defendants named in one or more of these actions include Bre-X, officers and directors of Bre-X, mining consulting firms retained by Bre-X, Bre-X's financial advisor and brokerage firms which sold Bre-X common stock. The actions are largely based on allegations of negligence, misrepresentation and breaches of the *Securities Exchange Act of 1934* (U.S. only), in connection with the sale of Bre-X securities. All of the actions are at a very preliminary stage. Based upon information presently available, counsel for Nesbitt Burns Inc. are not in a position to express an opinion as to the likely outcome of any of these actions. Management is of the view that the Company has strong defences and will vigorously defend against all such actions.

The Bank and its subsidiaries are party to other legal proceedings in the ordinary course of its business. Management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or results of the Bank's operations.

(d) Pledged Assets

In the normal course of our business, we pledge assets as security for various liabilities that we incur. As at October 31, 1997 we had pledged investment and trading account securities and other assets totalling $35,879 (1996 – $31,480) as security for call loans,

securities sold but not yet purchased, securities sold under repurchase agreements and other secured liabilities. Additionally, we had deposit assets in the amount of $317 as at October 31, 1997 (1996 – $213) to act as security for our participation in clearing and payment systems and as security for contract settlements with derivatives exchanges or other derivative counterparties.

(e) Cash Restrictions

Some of our subsidiaries are required to maintain reserves or minimum balances with central banks in their respective countries of operation. Cash resources included $398 as at October 31, 1997 and $266 as at October 31, 1996 of these balances.

Note 20 Derivative Financial Instruments

We enter into interest rate, foreign exchange, equity and commodity contracts, forwards, futures, options and swaps to enable customers to manage risk, and for proprietary trading and asset/liability management purposes.

Trading derivatives are those derivatives which we undertake in order to assist customers in managing their exposures and to generate income from proprietary trading positions. Trading derivatives are marked to market. Realized and unrealized gains and losses are recorded in other income. A portion of the income derived from marking derivatives to market in respect of credit risk premiums and administrative costs is deferred and amortized to income over the life of the contracts. Unrealized gains on trading derivatives are recorded in other assets and unrealized losses are recorded in other liabilities.

Asset/liability management derivatives are those which we use to manage the interest rate and foreign exchange exposures arising from our on-balance sheet positions. Such derivatives include contracts which are designated and effective as hedges. For a hedge to be effective, changes in the market value of the derivative must be highly correlated with changes in the market value of the underlying hedged item at inception and over the life of the hedge. Swaps, forwards and options, which are used for such purposes, are accounted for on the accrual basis, under which income and expense from the derivative instrument is accrued and there is no recognition of unrealized gains and losses on the derivative in the balance sheet. For swaps and forwards, interest income and expense from the hedging instrument is accrued and recorded as an adjustment to the income or expense related to the hedged position. Option premiums are amortized over the life of the contract to the income or expense line associated with the hedged position. Accrued interest receivable and payable and deferred gains and losses are recorded in other assets or other liabilities as appropriate. Realized gains and losses from the settlement of futures and interest rate forwards and from the early termination of all types of contracts are deferred and amortized over the remaining life of the hedging instrument. Subsequent changes in fair value of instruments identified as hedges but which are no longer effective as hedges are reported in other income.

Derivatives transactions, which are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets, include:

Swaps, which are contractual agreements between two parties to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, principal amounts and fixed and floating interest payments are exchanged in different currencies.

Forwards and futures, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Options, which are contractual agreements that convey the right but not the obligation to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

For options written by us, we receive a premium from the purchaser for accepting position risk. For options purchased by us, a premium is paid for the right to exercise the option, but we sustain credit risk due to the uncertainty as to the writer's ability to fulfill the conditions of the contract. Also included in options are caps, collars and floors, which are contractual agreements where the writer agrees to pay the purchaser, based on a specified notional amount, the agreed upon difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

We conduct our trading activities through business units dealing in both on and off-balance sheet positions, including derivatives, which are marked to market. The revenue generated by these units is disclosed on page 26 of the Management Analysis of Operations.

Losses incurred on defaults of counterparties charged to the allowance for credit losses in the years ended October 31, 1997 and 1996 were not significant.

The effect of asset/liability management derivatives on net interest income and the amount of deferred gains/losses on such contracts was:

	1997	1996	1995
Asset/Liability Management Derivatives			
Increase (decrease) in net interest income	**$ 89**	$ 33	$ (29)
Deferred realized (losses)	**$ (14)**	$ (3)	$ (6)

The following table summarizes our derivative portfolio and related credit exposure:

Notional amount: represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost: represents the cost of replacing, at current market rates, all contracts which have a positive fair value, in effect the unrealized gain. Derivative instruments transacted through exchanges are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-weighted assets as they are deemed to have no additional credit risk. The amounts take into consideration offsetting, where we have a legally enforceable right to offset and intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Credit risk equivalent: represents the total replacement cost and potential future credit exposure, taking into consideration offsetting as permitted by the Superintendent of Financial Institutions Canada.

Risk-weighted balance: represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by the Superintendent of Financial Institutions Canada.

	1997						1996					
	Notional amount						Notional amount					
	Customer/ proprietary trading	Asset/ liability management	Total	Replacement cost	Credit risk equivalent	Risk-weighted balance	Customer/ proprietary trading	Asset/ liability management	Total	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest Rate Contracts												
Over-the-counter												
Swaps	**$ 165,053**	**$ 22,574**	**$ 187,627**	**$ 2,012**	**$ 1,522**	**$ 367**	$ 120,734	$ 13,829	$ 134,563	$ 2,002	$ 2,440	$ 604
Forward rate agreements	**66,761**	**897**	**67,658**	**72**	**83**	**21**	100,178	793	100,971	157	168	34
Purchased options	**19,862**	**851**	**20,713**	**158**	**242**	**61**	11,919	247	12,166	105	150	39
Written options	**23,163**	**1,021**	**24,184**	**–**	**–**	**–**	14,649	245	14,894	–	–	–
	274,839	**25,343**	**300,182**	**2,242**	**1,847**	**449**	247,480	15,114	262,594	2,264	2,758	677
Exchange traded												
Futures	**69,987**	**563**	**70,550**	**–**	**–**	**–**	37,042	8,214	45,256	–	–	–
Purchased options	**10,853**	**–**	**10,853**	**–**	**–**	**–**	8,493	–	8,493	–	–	–
Written options	**13,397**	**–**	**13,397**	**–**	**–**	**–**	11,008	–	11,008	–	–	–
	94,237	**563**	**94,800**	**–**	**–**	**–**	56,543	8,214	64,757	–	–	–
Total Interest Rate Contracts	**369,076**	**25,906**	**394,982**	**2,242**	**1,847**	**449**	304,023	23,328	327,351	2,264	2,758	677
Foreign Exchange Contracts												
Over-the-counter												
Cross-currency swaps	**1,803**	**–**	**1,803**	**75**	**142**	**43**	547	–	547	89	120	31
Cross-currency interest rate swaps	**11,348**	**2,055**	**13,403**	**549**	**953**	**285**	6,491	1,485	7,976	260	637	87
Forward foreign exchange contracts	**260,287**	**9,418**	**269,705**	**3,642**	**4,103**	**1,144**	296,006	11,379	307,385	4,556	7,486	1,688
Purchased options	**11,867**	**–**	**11,867**	**202**	**332**	**102**	7,821	–	7,821	89	182	53
Written options	**12,542**	**–**	**12,542**	**–**	**–**	**–**	8,365	–	8,365	–	–	–
	297,847	**11,473**	**309,320**	**4,468**	**5,530**	**1,574**	319,230	12,864	332,094	4,994	8,425	1,859
Exchange traded												
Futures	**1,351**	**362**	**1,713**	**–**	**–**	**–**	1,793	–	1,793	–	–	–
Purchased options	**590**	**–**	**590**	**–**	**–**	**–**	256	–	256	–	–	–
Written options	**174**	**–**	**174**	**–**	**–**	**–**	15	–	15	–	–	–
	2,115	**362**	**2,477**	**–**	**–**	**–**	2,064	–	2,064	–	–	–
Total Foreign Exchange Contracts	**299,962**	**11,835**	**311,797**	**4,468**	**5,530**	**1,574**	321,294	12,864	334,158	4,994	8,425	1,859
Commodity Contracts												
Over-the-counter	**5,346**	**–**	**5,346**	**181**	**621**	**272**	349	–	349	19	58	25
Exchange traded	**1,891**	**–**	**1,891**	**–**	**–**	**–**	44	–	44	–	–	–
Total Commodity Contracts	**7,237**	**–**	**7,237**	**181**	**621**	**272**	393	–	393	19	58	25
Equity Contracts												
Over-the-counter	**–**	**64**	**64**	**4**	**9**	**4**	–	55	55	5	8	2
Exchange traded	**822**	**–**	**822**	**–**	**–**	**–**	603	–	603	–	–	–
Total Equity Contracts	**822**	**64**	**886**	**4**	**9**	**4**	603	55	658	5	8	2
Total	**$ 677,097**	**$ 37,805**	**$ 714,902**	**$ 6,895**	**$ 8,007**	**$ 2,299**	$ 626,313	$ 36,247	$ 662,560	$ 7,282	$ 11,249	$ 2,563

Included in the notional amounts above is $11,051 related to the Managed Futures Certificates of Deposit Program. Risk exposures represented by the assets in this program are traded on behalf of customers with all gains and losses accruing to them.

Replacement cost is the total of unrealized gains and amounts receivable on derivative contracts. We excluded exchange traded instruments with unrealized gains of $143 as at October 31, 1997 because we are not required to provide capital against these instruments. Included in the total are unrealized gains on asset/liability management derivatives which we include in the Consolidated Balance Sheet on an accrual rather than market basis. The excess of market value over book value for these items was $383 as at October 31, 1997.

One technique that we use to reduce credit exposure is master netting agreements with customers which allow us to net amounts due to/from the customer should the customer default on their contract. The potential reduction in replacement cost under master netting agreements was $2,425 as at October 31, 1997 and $2,344 as at October 31, 1996.

Transactions are conducted with counterparties in various geographic locations and industries. Based upon the ultimate risk, the replacement cost of contracts is recorded from customers located in:

	1997		1996	
Canada	**$ 2,251**	**33%**	$ 2,113	29%
U.S.A.	**1,703**	**25**	1,656	23
Mexico	**11**	**–**	1	–
Other countries	**2,930**	**42**	3,512	48
Total	**$ 6,895**	**100%**	$ 7,282	100%

The replacement cost of contracts is recorded from customers in the following industries:

	1997								1996							
	Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts		Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts	
Financial institutions	$ 1,875	84%	$ 3,968	89%	$ 41	23%	$ 4	100%	$ 1,822	80%	$ 4,706	94%	$ –	–%	$ 5	100%
Other	367	16	500	11	140	77	–	–	442	20	288	6	19	100	–	–
Total	$ 2,242	100%	$ 4,468	100%	$ 181	100%	$ 4	100%	$ 2,264	100%	$ 4,994	100%	$ 19	100%	$ 5	100%

Set out below are the maturities and weighted average interest rates paid and received on interest rate contracts:

	Term to maturity										1997	1996
	Within 1 year		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years		Total notional amount	Total notional amount
Interest Rate Contracts		Rate %		Rate %		Rate %		Rate %		Rate %		
Fixed/Floating Swaps												
Canadian $ pay fixed	$ 21,916	4.52	$ 14,473	5.71	$ 6,866	6.30	$ 2,498	7.33	$ –	na	$ 45,753	$ 26,754
Canadian $ receive fixed	21,312	4.79	19,727	5.65	7,145	6.84	5,703	7.28	40	6.68	53,927	33,617
U.S. $ pay fixed	11,584	5.95	13,407	6.54	5,086	6.68	4,715	6.91	141	7.20	34,933	31,231
U.S. $ receive fixed	12,130	5.91	9,898	6.46	4,671	6.70	2,825	6.91	211	7.14	29,735	25,927
Basis swaps	1,241	na	474	na	789	na	84	na	141	na	2,729	540
Other swaps	10,408	na	8,212	na	1,103	na	753	na	74	na	20,550	16,494
Interest rate swaps	78,591		66,191		25,660		16,578		607		187,627	134,563
Forward rate agreements, futures and options	167,342	na	29,219	na	7,398	na	3,182	na	214	na	207,355	192,788
Total Interest Rate Contracts	245,933	na	95,410	na	33,058	na	19,760	na	821	na	394,982	327,351
Foreign Exchange Contracts												
Cross-currency swaps	155	na	365	na	200	na	780	na	303	na	1,803	547
Cross-currency interest rate swaps	2,643	na	3,958	na	2,638	na	3,595	na	569	na	13,403	7,976
Forward foreign exchange contracts, futures and options	288,288	na	7,127	na	936	na	240	na	–	na	296,591	325,635
Total Foreign Exchange Contracts	291,086	na	11,450	na	3,774	na	4,615	na	872	na	311,797	334,158
Total Commodity Contracts	6,004	na	1,080	na	151	na	2	na	–	na	7,237	393
Total Equity Contracts	822	na	28	na	–	na	36	na	–	na	886	658
Total	$ 543,845	na	$ 107,968	na	$ 36,983	na	$ 24,413	na	$ 1,693	na	$ 714,902	$ 662,560

na = not applicable as weighted average rates are not meaningful.

U.S. $ amounts are presented in Canadian $ equivalents.

Included in the notional amounts above is $11,051 related to the Managed Futures Certificates of Deposit Program. Risk exposures represented by the assets in this program are traded on behalf of customers with all gains and losses accruing to them.

Rates represent the weighted average interest rates which we are contractually committed to pay/receive until the swap matures. The floating side of substantially all Canadian $ swaps is based on the one-month or three-month Canadian Bankers' Acceptance Rate. For U.S. $ swaps the floating side is generally based on the one-month, three-month or six-month London Interbank Offered Rate.

Basis swaps are floating interest rate swaps in which amounts paid and received are based on different indices or pricing periods.

Other swaps are contracts where the fixed side is denominated in a source currency other than Canadian $ or U.S. $.

The following table provides the fair value of our derivative financial instruments portfolio which is represented by the sum of net unrealized gains and losses, accrued interest receivable or payable, and premiums paid or received:

	1997							1996		
	Customer/proprietary trading			Asset/liability management			Total	Customer/ proprietary trading	Asset/ liability management	Total
	Gross assets	Gross liabilities	Net	Gross assets	Gross liabilities	Net	Net	Net	Net	Net
Interest Rate Contracts										
Swaps	$ 1,440	$ (1,531)	$ (91)	$ 572	$ (225)	$ 347	$ 256	$ 20	$ 326	$ 346
Forward rate agreements	72	(50)	22	–	–	–	22	15	–	15
Futures	4	(1)	3	–	–	–	3	(1)	–	(1)
Purchased options	182	–	182	11	–	11	193	104	3	107
Written options	–	(193)	(193)	–	(26)	(26)	(219)	(129)	(13)	(142)
Foreign Exchange Contracts										
Cross-currency swaps	75	(18)	57	–	–	–	57	79	–	79
Cross-currency interest rate swaps	547	(652)	(105)	2	(120)	(118)	(223)	(18)	(22)	(40)
Forward foreign exchange contracts	3,490	(3,333)	157	152	(120)	32	189	(29)	15	(14)
Futures	–	–	–	–	–	–	–	–	–	–
Purchased options	207	–	207	–	–	–	207	110	–	110
Written options	–	(155)	(155)	–	–	–	(155)	(110)	–	(110)
Commodity Contracts	265	(212)	53	–	–	–	53	4	–	4
Equity Contracts	15	(12)	3	4	(4)	–	3	3	5	8
Total Fair Value	$ 6,297	$ (6,157)	$ 140	$ 741	$ (495)	$ 246	$ 386	$ 48	$ 314	$ 362
Total Book Value	$ 6,297	$ (6,157)	$ 140	$ 358	$ (289)	$ 69	$ 209	$ 48	$ 38	$ 86
Average Fair Value	$ 7,238	$ (7,154)	$ 84	$ 632	$ (353)	$ 279	$ 363	$ 164	$ 76	$ 240

Fair values are calculated as:

- *Instruments are marked to market using quoted market rates and/or zero coupon valuation techniques.*
- *Zero coupon curves are created using generally accepted mathematical processes from underlying instruments such as cash, bonds, futures and off-balance sheet prices observable in the market.*
- *Options volatilities are either obtained directly from market sources or implied from market prices utilizing a modified Black Scholes Option Pricing algorithm.*
- *All prices and rates used are independently validated to ensure consistency and accuracy.*

Assets are shown net of liabilities to customers where we have an enforceable right to offset amounts and we intend to settle contracts on a net basis.

Note 21 Fair Value of Financial Instruments

As a financial institution we record trading assets at market values and non-trading assets and liabilities at their original amortized cost. Set out below is a comparison of the amounts which would be reported if all of our financial instrument assets and liabilities were reported at their fair value. Fair value is subjective in nature, requiring a variety of valuation techniques and assumptions. The values are based upon the estimated amounts for individual assets and liabilities and do not include an estimate of the fair value of any of our legal entities or underlying operations that comprise our business.

For the most part, fair value amounts represent our estimate of the amounts we could exchange the financial instruments for with third parties who were interested in acquiring the instruments. However, in some cases the financial instruments are not typically exchanged and therefore it is difficult to determine their fair value. In those cases, we have estimated fair value assuming that we will not sell the assets or liabilities, taking into account only changes in interest rates and credit risk that have occurred since we acquired them or entered into a contract.

Interest rate sensitivity is the main cause of change in the fair value of our financial instruments.

	1997				1996			
	Book value	Fair value of assets and liabilities	Fair value of ALM derivatives	Fair value over (under) book value	Book value	Fair value of assets and liabilities	Fair value of ALM derivatives	Fair value over (under) book value
Assets								
Cash resources	$ 32,245	$ 32,245	$ (8)	$ (8)	$ 24,187	$ 24,187	$ 1	$ 1
Securities *(note 3)*	41,789	42,243	1	455	36,609	36,980	(3)	368
Loans	114,918	115,674	90	846	98,413	99,495	268	1,350
Customers' liability under acceptances	5,594	5,594	–	–	4,397	4,397	–	–
Other assets	11,234	11,234	–	–	4,359	4,359	–	–
	205,780	206,990	83	1,293	167,965	169,418	266	1,719
Liabilities								
Deposits	144,212	144,659	(76)	371	119,262	119,985	34	757
Acceptances	5,594	5,594	–	–	4,397	4,397	–	–
Securities sold but not yet purchased	10,304	10,304	–	–	13,716	13,716	–	–
Securities sold under repurchase agreements	21,389	21,389	–	–	15,523	15,523	–	–
Other liabilities	13,605	13,619	–	14	6,034	6,047	–	13
Subordinated debt	3,831	4,222	(18)	373	3,314	3,570	(44)	212
	$ 198,935	$ 199,787	$ (94)	$ 758	$ 162,246	$ 163,238	$ (10)	$ 982
Total				$ 535				$ 737

ALM = asset/liability management derivatives which we use to manage the interest rate and foreign exchange exposures arising from our on-balance sheet positions.

The following sets out the valuation methods and assumptions we have used to estimate fair value:

Due to the short-term nature of certain assets and liabilities we believe that the book value is comparable to the estimated fair value. These assets and liabilities include:

- *Cash resources*
- *Customers' liability under acceptances*
- *Other assets*
- *Acceptances*
- *Securities sold but not yet purchased*
- *Securities sold under repurchase agreements*
- *Other liabilities, excluding liabilities of subsidiaries, other than deposits.*

The fair values of loans are determined using a variety of valuation methods, depending on the nature of the loan, which include:

- *Fair value of loans to and past due interest bonds of designated countries, as defined in note 4, is based on quoted market rates;*
- *Fair value of performing loans is calculated by adjusting the original value of the loan for changes in credit risk and interest rates since the time we granted the loan; and*
- *Fair value of impaired loans is equal to the book value which is calculated using the basis of valuation described in notes 4 and 5.*

The fair value of our deposits is determined by discounting the cash flows to be paid on the deposits using market interest rates currently offered for similar deposits.

The fair value of our subordinated debt and liabilities of subsidiaries included in other liabilities is determined by referring to current market prices for similar debt instruments.

Our estimates of fair values are calculated based on our current pricing policy, the economic and competitive environment and the characteristics of the financial instruments. Our calculations are subjective in nature and require us to make significant assumptions. Tax implications, if any, are excluded from the calculations.

Included in the excess of fair value over book value of loans as at October 31, 1997 is $2 (1996 – $4) for loans to designated countries and $57 (1996 – $100) for past due interest bonds of designated countries.

Premises and equipment are not financial instruments and have been excluded from our estimate of fair value. The net amounts excluded totalled $2,058 as at October 31, 1997 and $1,867 as at October 31, 1996.

Note 22 Reconciliation of Canadian and United States Generally Accepted Accounting Principles

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles, including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada. As a result of listing our common shares on the New York Stock Exchange we are required by the United States Securities and Exchange Commission to report all material differences between Canadian and United States accounting principles. There are no material differences in the consolidated total assets as at October 31, 1997 and 1996 or the consolidated net income, consolidated shareholders' equity and the consolidated statement of changes in financial position for the years ended October 31, 1997, 1996 and 1995 that have been reported in accordance with Canadian accounting principles compared to what we would have reported if we had used United States accounting principles.

Our total assets and total liabilities as at October 31, 1996 would have been $4,279 higher under United States accounting principles, which required that unrealized gains and losses on derivative financial instruments be reported on a gross rather than net basis, which was the practice in Canada at that time.

Future Changes in United States Accounting Policies

In future years, we will be required to adopt new accounting standards set out below for our United States reporting which may or may not give rise to material differences with our current Canadian accounting principles. We assess the potential impact of new policies when they are issued by standard setters and report the potential differences in this note.

The pending changes in United States generally accepted accounting principles and our assessment of the potential impact are:

- Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which must be adopted in fiscal 1997 for United States reporting purposes. This Statement outlines accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. FAS No. 125 is effective for transactions occurring after December 31, 1996, except those provisions relating to repurchase agreements, securities lending and other similar transactions and pledged collateral, which have been delayed until after December 31, 1997 by FAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125, and amendment of FAS No. 125." We adopted the appropriate provisions of FAS No. 125 on January 1, 1997. The effect of the adoption of the remainder of the provisions of this standard for United States reporting purposes did not have a material effect on our reported total assets or net income.
- Statement of Financial Accounting Standards No. 128, "Earnings per Share", which must be adopted in fiscal 1998 for United States reporting purposes. This Statement establishes standards for computing and presenting earnings per share ("EPS") requiring presentation of basic and fully diluted EPS in the Consolidated Statement of Income. This standard corresponds to the existing Canadian standard.

Statement of Management's Responsibility for Financial Information

The Bank's management is responsible for presentation and preparation of the annual consolidated financial statements, Management Analysis of Operations ("MAO") and all other information in the Annual Report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which in our circumstances are consistent with accounting principles generally accepted in the United States. The financial statements also comply with the provisions of the Bank Act and related regulations, including the accounting requirements of the Superintendent of Financial Institutions Canada, as well as the requirements of the Securities and Exchange Commission in the United States.

The MAO has been prepared in accordance with the requirements of securities regulators including National Policy 47 of the Canadian Securities Administrators as well as Item 303 of Regulation S-K of the Securities Exchange Act, and their related published requirements.

The consolidated financial statements and information in the MAO necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MAO also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal control and audit including organizational and procedural controls and internal accounting controls. Our system of internal control includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements. The Shareholders' Auditors review our system of internal control and conduct their work to the extent that they consider appropriate in order to provide their opinion on our consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the financial information contained in the Annual Report, including the MAO, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions. The Board delegates these responsibilities to its Audit, Risk Review and Conduct Review Committees. These committees are composed solely of directors who are not officers or employees of the Bank.

The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters.

M. W. Barrett

Matthew W. Barrett
Chairman and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Robert B. Wells, C.A.
Executive Vice-President and
Chief Financial Officer

Shareholders' Auditors' Report

To the Shareholders of Bank of Montreal

We have audited the consolidated balance sheets of Bank of Montreal as at October 31, 1997 and 1996 and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the years in the three-year period ended October 31, 1997. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended October 31, 1997 in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

Coopers & Lybrand

KPMG Peat Marwick Thorne

Coopers & Lybrand
Chartered Accountants

KPMG
Chartered Accountants

Canada
November 25, 1997

Bank Owned Corporations

Corporations in which the Bank owns more than 50% of the issued and outstanding voting shares	Head office	Percent of voting shares owned by the Bank	Book value of common and preferred shares owned by the Bank *(Cdn. $ in millions)*
Bank of Montreal Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	100	–
Bank of Montreal Capital Corporation	Toronto, Canada	100	45
Bank of Montreal Capital Markets (Holdings) Limited	London, England	100	67
Bank of Montreal Europe Limited	London, England	100	
BMO Nesbitt Burns International Ltd.	London, England	100	
Bank of Montreal Holding Inc.	Calgary, Canada	100	1,940
Bank of Montreal Asia Limited	Singapore, Republic of Singapore	100	
BMO Investments Ltd.	Hamilton, Bermuda	100	
Concordia Insurance Corporation	Bridgetown, Barbados	100	
Bank of Montreal Investment Management Limited	Toronto, Canada	100	26
Bank of Montreal Investor Services Limited	Toronto, Canada	100	11
Bank of Montreal Ireland plc	Dublin, Ireland	100	173
Bank of Montreal Mortgage Corporation	Calgary, Canada	100	997
BMRI Realty Investments	Toronto, Canada	100	
Bank of Montreal Securities Canada Limited	Toronto, Canada	100	666
The Nesbitt Burns Corporation Limited and subsidiaries	Montreal, Canada	100	
Bankmont Financial Corp.	Wilmington, U.S.A.	100	3,203
BMO Financial, Inc.	Wilmington, U.S.A.	100	
BMO Leasing (U.S.), Inc.	Wilmington, U.S.A.	100	
BMO Nesbitt Burns Equity Group (U.S.), Inc. and subsidiaries	Chicago, U.S.A.	100	
Harris Bankcorp, Inc. and subsidiaries	Chicago, U.S.A.	100	
Harris Bankmont, Inc. and subsidiaries	Dover, U.S.A.	100	
Harris Futures Corporation	Wilmington, U.S.A.	100	
Nesbitt Burns Securities Inc. and subsidiary	Chicago, U.S.A.	100	
BMO Ireland Finance Company	Dublin, Ireland	100	306
BMO Nesbitt Burns Equity Partners Inc.	Toronto, Canada	100	6
Cebra Inc.	Toronto, Canada	100	16
The Trust Company of Bank of Montreal	Toronto, Canada	100	18

The above is a list of all our directly held corporations, as well as their directly held corporations, and thereby includes all of our major operating companies. The book values of the corporations shown represent the total common and preferred equity value of our holdings.

We own 100% of the outstanding non-voting shares of subsidiaries except for Bank of Montreal Securities Canada Limited, of which we own 55.73% of the outstanding non-voting shares.

Glossary of Financial Terms

Allowance for Credit Losses
The amount deemed adequate by management to absorb potential credit losses in the Bank's portfolio of loans, acceptances, guarantees, letters of credit, deposits with other banks and derivatives.

Assets under Administration and under Management
Assets administered and/or managed by a financial institution which are beneficially owned by clients or investors and are therefore not reported on the balance sheet of the financial institution.

Bankers' Acceptance
A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. The acceptance constitutes a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis Point
One one-hundredth of a percentage point.

Capital Ratios
The percentage of risk-weighted assets supported by capital, as defined by the Superintendent of Financial Institutions Canada under the framework of risk-based capital standards developed by the Bank for International Settlements.

Counterparty
The other side of any transaction, typically the Bank's corporate or commercial customers or another financial institution. Counterparty risk refers to the risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction it has entered into.

Derivatives
A derivative is a contract whose value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates, and equity and commodity prices.

Duration
A measure of the average time interval required for an expected stream of cash flows to repay the original investment, i.e. a shorter duration means a faster recovery of the original investment.

Forward Rate Agreement (FRA)
A type of derivative which obliges two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount.

Forwards and Futures
Contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Guarantees and Standby Letters of Credit
Primarily represent our obligation to make payments to third parties on behalf of our customers if our customers are unable to make the required payments or meet other contractual requirements.

Hedge
A technique used to manage interest rate and foreign exchange exposures arising from normal banking operations.

Impaired Loans
Loans are classified as impaired when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal or interest.

Mark-to-Market
Valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

Net Interest Income
The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits and subordinated debentures.

Notional Amount
The amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Off-Balance Sheet Financial Instrument
An asset or liability which is not recorded on the balance sheet but has the potential to produce positive or negative future cash flows if a contingent event occurs.

Options
Contractual agreements that convey the right but not the obligation to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

Prepaid Pension Expense
The cumulative difference between the pension expense and the actual cash contributions we make into the pension plan on our employees' behalf.

Productivity Ratio
Non-interest expenses expressed as a percentage of gross revenue which includes net interest income and other income. Used as a measure of productivity and for comparison with peers.

Provision for Credit Losses
A charge to income which represents an appropriate expense given the composition of our credit portfolios, their probability of default, the economic environment and the allowance for credit losses already established. Specific provisions are established to reduce the book value of specific assets (primarily loans) to establish the amount expected to be recovered from the loans. A country risk provision is established for loans to and securities of countries identified by the Superintendent of Financial Institutions Canada that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks. A general provision is established for loans recognizing that not all of the impairment in the loan portfolio can be specifically identified on a loan-by-loan basis.

Repurchase Agreement (Repo)
A type of transaction that involves the sale of a security with the commitment by the seller to repurchase the security at a specified price and time.

Return on Equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

Reverse Repurchase Agreement (Reverse Repo)
See Securities Purchased under Resale Agreements.

Risk

Credit Risk
Refers to the possibility that counterparties to financial instruments transacted with a bank will be unable to discharge their obligations under the instruments and cause the bank to suffer a loss.

Foreign Exchange Risk
Foreign exchange risk refers to possible losses resulting from exchange rate movements. A foreign currency devaluation, for example, could result in losses on an overseas investment.

Interest Rate Risk
Interest rate risk is the potential impact on a bank's earnings and economic value due to changes in interest rates. Rising interest rates could, for example, increase funding costs and reduce the net interest margin earned on a fixed yield mortgage portfolio.

Liquidity Risk
Refers to potential demands on a bank for cash resulting from commitments to extend credit, deposit maturities and many other transactions.

Operational Risk
Operational risk is the potential for loss caused by a breakdown in procedures in transaction processing, risk management and reporting.

Position Risk
Position risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity and commodity prices and the volatility of these rates and prices.

Risk-Weighted Assets
Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per dollar among all types of assets. The risk inherent in off-balance sheet instruments is also recognized, first by adjusting notional values to balance sheet (or credit) equivalents, and then by applying appropriate risk weighting factors.

Securities Purchased under Resale Agreements
A type of transaction that involves the purchase of a security, normally a government bond, with the commitment by the buyer to resell the security to the original seller at a specified price on a specified date in the future.

Securities Sold Short
Transactions in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities. On the balance sheet, this category represents our obligation to deliver securities which we did not own at the time of sale.

Swaps
Contractual agreements between two parties to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, principal amounts and fixed and floating interest payments are exchanged in different currencies.

Taxable Equivalent Adjustment
An addition to interest income to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income as appears in the financial statements, enabling a uniform measurement and comparison of net interest income.

Volatility
A term which generally refers to a measure of price variance, usually the standard deviation of returns from a security or a portfolio of securities over a specified period of time.

For Bank of Montreal, the relationship with its investors is a long-term constructive partnership. This philosophy and approach have for many years guided our efforts to develop open, effective, accountable corporate governance practices, and have earned the Bank a long-standing reputation as a leader in this field.

Our determination to maintain that leadership has been incorporated into our Corporate Governance Program, a program which is constantly evolving and which incorporates the Bank's high principles.

Corporate Governance

We believe that in a dynamic environment it is imperative that directors and managers of public corporations constantly review, evaluate and, if necessary, modify governance practices to ensure their effectiveness and vitality.

To this end, Bank of Montreal has recently concluded a major review of its Corporate Governance Program. Many of the study's recommendations have already been implemented, ensuring that Bank of Montreal will continue to lead the field of corporate governance with a program that protects shareholders and ensures their voices will be heard, safeguards Board independence, and ensures the accountability of the Board to all the Bank's investors.

There are six key areas of focus that shape our governance program.

Corporate Governance

Access to Information and Measures of Corporate Performance

The directors have the responsibility for safeguarding the integrity of the Bank's internal control systems, and for ensuring ethical behaviour and compliance with laws and regulations. These responsibilities are vested principally in the Board's Audit Committee, although the Conduct Review and Risk Review Committees also have specific compliance responsibilities. Responsibility for the review of material transactions which fall outside the ordinary course of Bank business remains with the full Board.

To oversee and evaluate the management of the affairs of the Bank effectively, the Board must have at its disposal a comprehensive and relevant system of measuring the Bank's performance, one defined by and consistent with the Bank's strategic goals. Accordingly, the directors receive timely, comprehensive information regarding the Bank's performance, benchmarked against domestic and international peer groups.

Objectives for the other stakeholder groups have also been established, based on management's assessment of how performance on these objectives will affect profitability and, in turn, shareholder value.

Annual all-day strategy sessions are conducted to ensure directors are fully versed in the strategic planning process so that they may fulfill their responsibilities for approving the Bank's corporate philosophy and mission, providing input on emerging trends and approving management's strategic plans.

These sessions afford the directors the opportunity to gain full appreciation of the Bank's planning priorities and to give constructive feedback. Included in these sessions are an analysis of important risk factors and details of the specific systems in place to manage these risks.

As a supplement to the all-day strategy sessions, the Board receives systematic updates on the Bank's various lines of business at regular Board meetings.

Further, new directors are introduced to the business of banking through a comprehensive orientation and education program. Rotation of committee assignments offers directors exposure to Bank management issues and enables them to be better informed and more involved.

Recognizing the broad responsibilities and ever-increasing accountabilities of directors, as part of its 1991 governance study the Bank developed guidelines denoting precisely and clearly the roles and responsibilities of the Board and management. The purpose of the *Approval and Oversight Guidelines* is to ensure that lines of accountability exist within the Bank, and that directors have the information necessary to exercise informed and proper diligence and to discharge their supervisory responsibilities promptly and effectively.

Assessment of the Functioning of the Board and of Directors

Each year, the Bank commissions an outside consultant to conduct a comprehensive corporate governance survey. The survey solicits each director's frank and critical views on a number of subjects, including: Board and committee administration and performance, the quality of the Bank's strategy, and the performance of its management. Results of the survey are reviewed with the Board, and the findings are integral to planning the following year's agenda for the Board and its committees.

The Board has also adopted a *Charter of Expectations for Directors*, which enumerates the specific responsibilities to be discharged by the Bank's directors and the individual roles expected of them. The charter also stipulates the personal and professional characteristics expected of all directors and provides benchmarks against which a director will be assessed by his/her peers. These criteria also form a recruitment model for use in the screening and selection of future Board members.

A comprehensive formal program of individual director performance assessment and feedback was approved by the Board in 1997, and is now in place. Under the program, each director will receive detailed annual feedback on the quality of his/her contribution.

The Board conducts a dual performance evaluation of the Chairman and Chief Executive Officer. The Human Resources and Management Compensation Committee undertakes an annual written assessment of the performance of the Chief Executive Officer which covers the Bank's financial performance and condition; marketing and customer satisfaction; human resources management; technology and infrastructure management; community service and Bank reputation; and strategic positioning. The Board Governance and Administration Committee conducts an independent performance evaluation of the Chairman and CEO with respect to his role as Chairman.

Board Effectiveness

For the Board to be effective, it must be of a workable size, with each director equipped and empowered to discharge his or her responsibilities.

In January 1997, Bank of Montreal reduced its Board from 21 to 18 directors. Only three directors qualify as "related" pursuant to the relationship rules set forth in the Bank Act, which are more restrictive than the guidelines adopted by the Toronto and Montreal stock exchanges. One director is "related" as his company is a major customer of the Bank. The other two are the Chairman and CEO and the President and COO, who are "related" by virtue of being employees of the Bank. (The Bank Act states that no more than two-thirds of the directors may be "related".)

The movement to a smaller, more workable number of directors has enabled the Bank to restructure its committees, increase the involvement of individual directors, and improve the decision-making process.

Board effectiveness has been advanced significantly with the introduction of an electronic directors' network, which enables the Bank to provide more comprehensive and timely information to directors. Directors are now fully conversant with the technology, and the network is relied upon as the principal means of communication with directors.

Board Independence

For the Board to fulfill its responsibilities as the overseer of the Bank's business affairs, its independence must not be compromised.

The director chairing the Board Governance and Administration Committee acts as "lead director", and is responsible for chairing the "in camera" sessions (those in which no "inside" directors or other management personnel are present), which are held during every Board meeting.

In the case of the two committees where Board independence is of greatest concern (the Board Governance and Administration Committee and the Human Resources and Management Compensation Committee), no members of management sit on these committees.

In addition, committees are empowered to engage independent consultants in appropriate circumstances to assist them in discharging their responsibilities.

Given the climate of critical review and independent judgment that the Bank has sought to create, the Board strongly believes that it functions independently of management.

Board Commitment

To align the interest of the directors more fully with those of the Bank's shareholders, the Board in 1997 implemented a Directors' Stock Plan. The plan requires directors to take a minimum of 50 per cent of their retainer in the form of either common shares or deferred share units. Further, it offers directors the option to take up to 100 per cent of both retainer and meeting fees in that form.

With respect to compensation, the Board Governance and Administration Committee annually reviews and submits its recommendations to the Board regarding the existing form and adequacy of compensation paid to directors.

Shareholder Communications and Disclosure

The Bank continues to be fully committed to creating an environment that confers equal and fair treatment on shareholders, irrespective of the size of their holdings, and that, at the same time, recognizes the importance of incorporating shareholder opinion into the design and operation of its Corporate Governance Program.

As a result, significant changes have been implemented to improve shareholder communications, particularly as it relates to keeping the Board informed of shareholder views. The Board now receives comprehensive investor relations reports at least twice a year.

Further, the mandate of the Board Governance and Administration Committee has been expanded to include responsibility for assessing the merits of shareholder proposals received by the Bank, establishing procedures for dealing with those proposals, and formulating the Bank's proposed response for approval by the full Board. This ensures that proposals are handled by outside, independent directors, and removes management directors from any possible conflict of interest.

The chairs of the Board Governance and Administration Committee and the Human Resources and Management Compensation Committee are available at the Bank's Annual Meeting to respond to any corporate governance and compensation issues that may be raised by shareholders.

Communications with shareholders are also being expanded to provide updates and informational circulars on governance issues. Vehicles such as the Bank's quarterly shareholders' reports will be used for this purpose.

In addition to these practices, the Bank continues to have a dedicated Shareholder Services group responding to individual shareholder inquiries, as well as an Investor Relations group dealing with institutional investors and financial analysts.

Conclusion

Bank of Montreal believes corporate governance is a core contract between the Bank and its shareholders, implemented through the Board of Directors. Its rigorous implementation of this approach has earned the Bank a reputation as a leader among Canadian corporations in the development of open, effective and accountable corporate governance.

As the regulatory, business and societal context has changed, Bank of Montreal has redoubled its efforts to ensure that its Corporate Governance Program remains at the forefront of the Canadian business community.

It is the Board's opinion that the Bank's approach to corporate governance is comprehensive, progressive, and consistent with — and in many respects goes beyond — the high standards subscribed to by the Toronto and Montreal stock exchanges. The Bank continues to assess its governance practices critically as part of its commitment to ensuring effective corporate governance.

The Board and its Committees

The Board of Directors has as its role the management or supervision of the management of the business and affairs of the Bank. Among its many specific duties, the Board selects, evaluates, sets the compensation for and, if necessary, replaces the Chief Executive Officer; approves strategic plans and objectives; approves major decisions and corporate plans; provides advice and counsel to the Chief Executive Officer; nominates directors and evaluates Board performance; oversees the ethical, legal and social conduct of the organization; and reviews the financial performance and condition of the Bank. These functions are discharged either directly or through Board committees.

Generally the Board committees are composed of outside directors, except in the case of the Executive Committee where the Chairman & Chief Executive Officer and the President & Chief Operating Officer both are members. The President & Chief Operating Officer also serves on the Risk Review Committee. The majority of directors serving on each of the committees are "unrelated."

The Audit Committee reviews Bank financial statements before they are approved by the Board. It monitors internal control procedures and the Bank's regulatory compliance program, and reviews any investments or transactions which could adversely affect the Bank. In the discharge of its duties, the committee meets regularly with the shareholders' auditors, representatives of the Office of the Superintendent of Financial Institutions, the Bank's Chief Financial Officer, Chief Internal Auditor, General Counsel and Vice-President, Corporate Compliance. The Bank is required by the Bank Act to have an Audit Committee consisting entirely of outside directors.

Members: J.H. Reitman (Chair), P.J.G. Bentley, R.H. McKercher, G. Saucier, N.C. Southern

The Board Governance and Administration Committee is responsible for the development and maintenance of the Bank's corporate governance practices. Among other things, its duties include identifying and recommending to the Board suitable director candidates, and establishing appropriate Board committee structure, composition, mandates and membership. The committee also conducts the annual assessment of the performance of the Board through the use of an outside consultant and commencing this year will assess the performance of the Chairman. In addition, the committee is responsible for assessing the merits of shareholder proposals received by the Bank, establishing procedures for dealing with such proposals, and formulating the Bank's proposed response for approval by the full Board. The chair of the Board Governance and Administration Committee acts as "lead director."

Members: J.B. MacAulay (Chair), R.M. Barford, P.J.G. Bentley, J.F. Fraser, J.H. Reitman

The Conduct Review Committee establishes procedures for the review of transactions with related parties of the Bank and on an ongoing basis reviews related party transactions in accordance with Bank Related Party Transactions Regulations under the Bank Act. It also monitors procedures to deal with conflicts of interest, disclosure of information to customers, and resolution of customer complaints. The Bank is required by the Bank Act to have a Conduct Review Committee consisting entirely of outside directors.

Members: P.J.G. Bentley (Chair), R.H. McKercher, J.H. Reitman, G. Saucier, N.C. Southern

The Executive Committee acts for the Board in managing, or supervising the management of, the Bank's business when the full Board is not in session, subject to certain statutory limits on the capacity of the directors to delegate authority. The Executive Committee is an ad hoc committee, meeting only on an as required basis. The efficiencies attained with the smaller Board have made it possible to dispense with regular Executive Committee meetings, thus facilitating more effective utilization of directors' time.

Members: M.W. Barrett (Chair), F.A. Comper (Vice-Chair), R.M. Barford, D.R. Beatty, P.J.G. Bentley, L.A. Desrochers, J.F. Fraser, J.B. MacAulay, J.C. Monty, J.H. Reitman, L.C. Webster

The Human Resources and Management Compensation Committee deals with issues related to the Bank's human resources, including annual reviews of the Bank's human resources inventory and compensation and benefits policy changes. The committee, in addition, reviews and approves executive compensation, benefits and bonuses; monitors management succession planning; assesses the performance of the Chief Executive Officer; and reviews the assessments of the President and Vice-Chairmen. It also reviews executive appointments and reassignments.

Members: P.J.G. Bentley (Chair), R.M. Barford, L.A. Desrochers, J.F. Fraser, J.B. MacAulay, L.C. Webster

The Risk Review Committee meets regularly with the appropriate Bank officers to review the major risk areas integral to the Bank's operations and the degree of risk normally assumed by the Bank. It also assesses the procedures developed to manage and control those risks in compliance with regulatory requirements.

Members: J.C. Monty (Chair), R.M. Barford, D.R. Beatty, F.A. Comper, R.N. Mannix, E.H. Molson

Directors of Bank of Montreal *as at October 31, 1997*

Directors

Matthew W. Barrett, O.C.
Chairman of the Board and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Ralph M. Barford
Toronto, Ont.
President
Valleydene Corporation Limited

David R. Beatty, O.B.E.
Toronto, Ont.
Chairman and
Chief Executive Officer
Old Canada Investment
Corporation Limited

Peter J.G. Bentley, O.C., LL.D.
Vancouver, B.C.
Chairman, President and
Chief Executive Officer
Canfor Corporation

Louis A. Desrochers, M.C., c.r.
Edmonton, Alta.
Senior Partner
McCuaig Desrochers

John F. Fraser, O.C., LL.D.
Winnipeg, Man.
Chairman
Air Canada

Wilbur H. Gantz
Wilmette, Illinois, U.S.A.
President and
Chief Executive Officer
PathoGenesis Corporation

J. Blair MacAulay
Oakville, Ont.
Counsel
Fraser & Beatty, Toronto

Ronald N. Mannix
Calgary, Alta.
Chairman and
Chief Executive Officer
Loram Corporation

Robert H. McKercher, Q.C.
Saskatoon, Sask.
Senior Partner
McKercher McKercher
& Whitmore

Eric H. Molson
Montreal, Que.
Chairman of the Board
The Molson Companies Limited

Jean C. Monty, C.M.
Montreal, Que.
President and
Chief Operating Officer
BCE Inc.

Jerry E.A. Nickerson
North Sydney, N.S.
Chairman
H.B. Nickerson & Sons Ltd.

Jeremy H. Reitman
Montreal, Que.
President
Reitmans (Canada) Limited

Guylaine Saucier, C.M., F.C.A.
Montreal, Que.
Chairman, Board of Directors
Canadian Broadcasting
Corporation

Nancy C. Southern
Calgary, Alta.
Deputy Chairman
ATCO Ltd. and
Canadian Utilities Limited

Lorne C. Webster
Montreal, Que.
Chairman and
Chief Executive Officer
Prenor Group Ltd.

Honorary Directors

Charles F. Baird
Bethesda, Maryland, U.S.A.

Claire P. Bertrand
Montreal, Que.

The Honourable
Sidney L. Buckwold, O.C.
Saskatoon, Sask.

Fred S. Burbidge, O.C.
Frelighsburg, Que.

Pierre Côté, C.M.
Quebec City, Que.

C. William Daniel, O.C., LL.D.
Toronto, Ont.

Nathanael V. Davis
Osterville, Massachusetts, U.S.A.

Graham R. Dawson
Vancouver, B.C.

John H. Devlin
Toronto, Ont.

A. John Ellis, O.C., LL.D., O.R.S.
Vancouver, B.C.

Thomas M. Galt
Toronto, Ont.

J. Peter Gordon, O.C.
Mississauga, Ont.

John H. Hale
London, England

G. Arnold Hart, M.B.E., C.M.
Mountain, Ont.

Donald S. Harvie, O.C.
Calgary, Alta.

Richard M. Ivey, O.C., Q.C.
London, Ont.

Betty Kennedy, O.C., LL.D.
Milton, Ont.

David Kinnear
Toronto, Ont.

Donald A. McIntosh, Q.C.
Toronto, Ont.

The Honourable
Hartland de M. Molson, O.C., O.B.E.
Montreal, Que.

William D. Mulholland, LL.D.
Georgetown, Ont.

Lucien G. Rolland, O.C.
Montreal, Que.

Mary Alice Stuart, C.M., O.ONT., LL.D.
Toronto, Ont.

Officers of Bank of Montreal *as at October 31, 1997*

Matthew W. Barrett, O.C.
Chairman of the Board and
Chief Executive Officer

F. Anthony Comper
President and
Chief Operating Officer

Jeffrey S. Chisholm
Vice-Chairman
Electronic Financial Services and
President, mbanx

Gary S. Dibb
Vice-Chairman
Corporate Services and
Organizational Development

Keith O. Dorricott
Vice-Chairman

Alan G. McNally
Vice-Chairman and
Chairman of the Board and
Chief Executive Officer
Harris Bankcorp, Inc.

Ronald G. Rogers
Vice-Chairman
Personal and Commercial
Financial Services

Brian J. Steck
Vice-Chairman
Investment and Corporate Banking
and Chairman and
Chief Executive Officer
Nesbitt Burns Corporation

Lloyd F. Darlington
Chief Technology Officer and
General Manager
Operations Group

Yvan J.P. Bourdeau
Executive Vice-President and
Head of Global Treasury Group

Ellen M. Costello
Executive Vice-President and
Deputy Treasurer
Global Treasury Group

William A. Downe
Executive Vice-President
North American Corporate Banking

Barry K. Gilmour
Executive Vice-President
Systems

George W. Hopkins
Executive Vice-President
Corporate Staff

Terry A. Jackson
Executive Vice-President
Asset Management Services
and President
The Trust Company of
Bank of Montreal

Harri E. Jansson
Executive Vice-President
Central, Eastern &
Northern Ontario Division
Personal and Commercial
Financial Services

Neil R. Macmillan
Executive Vice-President
Risk Management Policy

Michel G. Maila
Executive Vice-President
Mexico and Latin America

Timothy J. O'Neill
Executive Vice-President and
Chief Economist

Michael R.P. Rayfield
Executive Vice-President
Corporate Banking

Deanna Rosenswig
Executive Vice-President
Corporate Electronic
Financial Services

Robert B. Wells
Executive Vice-President and
Chief Financial Officer

Andrew R. White
Executive Vice-President and
Chief Operating Officer
mbanx

Dereck M. Jones
Senior Vice-President and
General Counsel

Marnie J. Kinsley
Senior Vice-President and
Chief Auditor

Penelope F. Somerville
Senior Vice-President and
Corporate Controller

Christopher B. Begy
Vice-President and
Chief Accountant

Velma J. Jones
Vice-President and Secretary

International Advisory Council

The International Advisory Council provides the Bank and its Senior Executive advice and perspective on political, economic and social trends which may impact the Bank's current or future operations.

Sylvia Ostry, C.C., F.R.S.C.
(Council Chairman)
Canada
Chairman, Centre for
International Studies
University of Toronto

Matthew W. Barrett, O.C.
Canada
Chairman of the Board and
Chief Executive Officer
Bank of Montreal

Ambassador Richard R. Burt
United States
Chairman
International Equity Partners

Sir Michael Butler
United Kingdom
Consultant
Hambros Bank Limited

F. Anthony Comper
Canada
President and
Chief Operating Officer
Bank of Montreal

Viscount Étienne Davignon
Belgium
Executive Chairman
Société Générale de Belgique

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Mexico
Chairman of the Board
Grupo GEUSA

Allan E. Gotlieb, C.C.
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Senior Consultant
Stikeman, Elliott

Dr. Kihwan Kim
Republic of Korea
Senior Advisor
Kim & Chang

Makoto Kuroda
Japan
Executive Vice President
Tokyo Small Business Investment
and Consulting Co.

Dr. the Honourable David K.P. Li, O.B.E., Hon.LL.D. (Cantab), J.P.
Hong Kong
Chairman and Chief Executive
The Bank of East Asia, Limited

Dr. Charles L. Schultze
United States
Senior Fellow Emeritus
Economic Studies
The Brookings Institution

Dr. h.c. Horst Teltschik
Germany
Member
Management Board of
BMW AG Munich

The Honorable James R. Thompson
United States
Chairman, Chairman of the
Executive Committee and Partner
Winston & Strawn

Shareholder Information

Common Stock Trading Information during 1997

Primary Stock Exchanges	Ticker	Year-end Price Oct. 31, 1997	High	Low	Volume of Shares Traded
Toronto/Montreal	BMO CN	**$ 60.850**	$ 61.600	$ 39.050	268.1 million
New York	BMO US	**US$ 43.125**	US$ 44.625	US$ 28.750	4.4 million

Dividends per Share Declared during Fiscal Year

Issue/Class	Ticker	Shares Outstanding at Oct. 31, 1997	1997	1996	1995	1994	1993
Common *(a)*	BMO CN BMO US	261,436,344	**$ 1.64**	$ 1.48	$ 1.32	$ 1.20	$ 1.12
Preferred Class A							
Series 4	BMO.D	8,000,000	**$ 2.25**	$ 2.25	$ 2.25	$ 2.25	$ 2.25
Series 5		288	**$ 19,062.50**	$ 19,062.50	$ 19,062.50	$ 19,062.50	$ 19,062.50
Preferred Class B							
Series 1	BMO.E	10,000,000	**$ 2.25**	$ 2.25	$ 2.25	$ 2.25	$ 2.25
Series 2	BMO.U	10,000,000	**US$ 1.69**	US$ 1.69	US$ 1.69	US$ 1.69	US$ 1.69
Series 3 *(b)*	BMO.F	16,000,000	**$ 0.93**	–	–	–	–

(a) Common dividends have been restated to reflect the effects of the two-for-one stock distribution in March 1993.
(b) The Class B Series 3 Preferred Shares were issued in March 1997. Dividends declared in fiscal 1997 were for a partial year.

1998 Dividend Dates

Common and Preferred Shares Record Dates	Preferred Shares Payment Dates	Common Shares Payment Dates
February 6	February 25	February 26
May 8	May 25	May 28
August 7	August 25	August 28
November 6	November 25	November 27

The Bank Act prohibits a bank from paying or declaring a dividend if it is in contravention of capital adequacy regulations. Currently, this limitation does not restrict the payment of dividends on the Bank's common or preferred shares.

Market for Securities of the Bank

The common shares of the Bank are listed on the Toronto, Montreal, Winnipeg, Alberta, Vancouver and New York stock exchanges and The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, London, England ("London Stock Exchange"). The preferred shares of the Bank, with the exception of Class A Series 5, are listed on the Toronto, Montreal, Winnipeg, Alberta, and Vancouver stock exchanges. In addition, the Floating Rate Debentures Series 10, due July 1998 are listed on the London Stock Exchange.

Distribution of Common Shares

As at October 31, 1997

Canada	90.6%
United States	9.2%
Other countries	0.2%
	100.0%

Registered shareholdings by geographic region based upon the residency of registered shareholders and declarations of beneficial ownership by depository participants.

Restraints on Ownership of Shares under the Bank Act

No person or group of associated persons may own more than 10% of any class of shares, and ownership of the Bank's shares by Canadian or foreign governments is prohibited.

Shareholder Administration

The Trust Company of Bank of Montreal, with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, serves as transfer agent and registrar for common and preferred shares. In addition, The Trust Company of Bank of Montreal and Bank of Montreal Trust Company serve as transfer agents and registrars for common shares in London, England and New York, respectively.

For dividend information, change in share registration or address, or to advise of duplicate mailings, please call the Bank's Transfer Agent and Registrar collect at (514) 877-2500, or write to: The Trust Company of Bank of Montreal, 105 Saint-Jacques St., 3rd Floor, Montreal, Quebec H2Y 1L6.

For all other shareholder inquiries, please contact Shareholder Services at the Corporate Secretary's Department, 21st Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

Shareholder Dividend Reinvestment and Share Purchase Plan

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common and preferred shares to reinvest cash dividends in common shares of the Bank without the payment of any commissions or service charges. Shareholders of the Bank may also purchase additional common shares of the Bank by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from Shareholder Services.

Direct Dividend Deposit

Shareholders may choose to have dividends deposited directly to an account in any financial institution in Canada which provides electronic funds transfer facilities.

Investment Analysis and Research

For information about Bank of Montreal or to obtain supplemental financial data, please contact Investor Relations, P.O. Box 1, 1 First Canadian Place, Toronto, Ontario M5X 1A1.

Bank of Montreal is covered by the equity research departments of major Canadian and U.S. investment dealers.

General Information

For general inquiries about company news and initiatives, or additional copies of the Annual Report, please contact the Public Affairs Department, Bank of Montreal Tower, 55 Bloor Street West, 4th Floor, Toronto, Ontario M4W 3N5. (On peut obtenir sur demande un exemplaire en français.)

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, February 24th, 1998 at 9:30 am (Central Time) at the Lombard Hotel, Winnipeg, Manitoba, Canada.

Visit Bank of Montreal on the Internet: www.bmo.com or www.mbanx.com

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Bank of Montreal